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PRINCIPLES AND PRACTICE OF SERVICES MARKETING

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SYLLABI-BOOK MAPPING TABLE

Principles and Practice of Services Marketing

Syllabi	Mapping in Book
BLOCK I: Service Marketing **Unit - 1:** Services: Meaning and definition of services - Importance of services in Indian Environment - Classification of services - Characteristic features of services - Growth of the service sector - Economic policy on services - Differences between goods and services. **Unit - 2:** Service Marketing: Concept - Significance - Customer's expectation in Service Marketing - Managing demand and supply in service business. **Unit - 3:** Service design - Factors to be considered in designing service process - Guiding principles in service design - Service marketing system - Types of services layouts - Service mapping.	**Unit 1:** Concept of Services **(Pages 1-20)** **Unit 2:** Service Marketing **(Pages 21-44)** **Unit 3:** Service Design **(Pages 45-56)**
BLOCK II: Service Marketing Mix **Unit - 4:** Marketing Mix for Services - Characteristics of service marketing mix - Sales promotion - Physical evidence - Types of physical evidence. **Unit - 5:** Service product - Meaning - Customer benefit concept - Core service level - The service offer - Product planning and development - Quality management. **Unit - 6:** Pricing in services - Meaning of price - Objectives of pricing - Characteristics of services and prices - Service cost - Approaches to pricing services - Methods of demand based pricing. **Unit - 7:** Service promotion - Market communication - Communication process - Determining the communication objectives - Selecting the communication channels - Service communication - Steps in advertising process. **Unit - 8:** Location of services and channels of distribution - Location - Factors to be considered in choosing a service location - Classification of services by location - Direct distribution - Franchising - Agents - Customer segmentation. **Unit - 9:** People in services marketing mix - Service personnel - Contact personnel - Role of frontline employees - Hiring the right people - Service culture. **Unit - 10:** Physical evidence - Classification of physical evidence - Role of the service cape - Peripheral evidence - Guidelines for physical evidence strategy.	**Unit 4:** Marketing Mix for Services **(Pages 57-80)** **Unit 5:** Service Product **(Pages 81-90)** **Unit 6:** Pricing in Services **(Pages 91-102)** **Unit 7:** Service Promotion **(Pages 103-126)** **Unit 8:** Location of Services and Channels of Distribution **(Pages 127-148)** **Unit 9:** People in Services Marketing Mix **(Pages 149-160)** **Unit 10:** Physical Evidence **(Pages 161-174)**
BLOCK III: Internal Service Marketing **Unit - 11:** Internal marketing - Objectives - Role of internal marketing - Components of internal marketing - External marketing - Relationship marketing - Goals of relationship marketing - Customer relationship management - Objectives of CRM. **Unit - 12:** Marketing mix of selected services - Personal care marketing - Entertainment Marketing - Education Marketing - Communication Marketing - Electricity Marketing. **Unit - 13:** Key Services Marketing: Banking services - Insurance services - Transport services - Tourism services - Hotel services- Consultancy services - Hospital services - Market segmentation. **Unit - 14:** Service Quality: Measurement of Service Quality - Scope of Service Quality - Tools for achieving Service Quality - Causes of Service Quality - Problems - Principles of service quality.	**Unit 11:** Internal Marketing **(Pages 175-198)** **Unit 12:** Marketing Mix of Selected Services **(Pages 199-214)** **Unit 13:** Key Services Marketing **(Pages 215-278)** **Unit 14:** Service Quality **(Pages 279-300)**

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INTRODUCTION

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All industrial and economic activities are divided into three, namely, primary, secondary and tertiary. Primary activities include agriculture, fishing, forestry, mining etc. Secondary activities consist of manufacturing, processing, construction etc. Tertiary activities comprise of services, distribution etc. Services form a major part of economic activities and the world today is dominated by the service sector. Service marketing is defined as the integrated system of business activities designed to plan, price, promote and distribute appropriate services for the benefit of existing and potential consumers to achieve organisational objectives. The perception of services marketing focuses on selling the services in the best interest of the customers.

The objective of the book, *Principles and Practice of Services Marketing* is to facilitate understanding of the conceptual framework of services marketing. The students will understand its applications in decision making under various environmental constraints.

This book is written with the distance learning student in mind. It is presented in a user-friendly format using a clear, lucid language. Each unit contains an Introduction and a list of Objectives to prepare the student for what to expect in the text. At the end of each unit are a Summary and a list of Key Words, to aid in recollection of concepts learnt. All units contain Self-Assessment Questions and Exercises, and strategically placed Check Your Progress questions so the student can keep track of what has been discussed.

BLOCK - I
SERVICE MARKETING

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UNIT 1 CONCEPT OF SERVICES

Structure

1.0 INTRODUCTION

The marketing of services has now become a separate entity, and functions independent of the marketing of products and goods. There is an invariant need of services marketing in today's world with it being more necessary than products at some point. Services offered to consumers are intangible in nature without any physical transfer of products from a manufacturer to the end consumer. For successful marketing of services, a service provider needs to carefully assess his capabilities and resources available to him, after which he can conduct a market survey to decide upon a segment to provide the required service.

The service industry in India has grown at a considerable rate after the economic reforms of 1991. Globalization has brought with itself a vast change in the Indian service sector and the infrastructure of our country. Service industries such as aviation, hospitality, communication, etc., have reached a new high since then. Providing services has proved to be successful among consumers since they are involved on a personal basis with the service and the provision of many services provide interaction between the service provider and the service purchaser. However, there is a great need for services to be segmented according to the target customers and their requirements which can be beneficial for service providers as they could serve their customers more effectively and in an efficient manner to ensure continuity of the purchaser. Consumer markets can be segmented on the basis of a consumer's lifestyle, personality, geographical location, age, benefits, usage, etc. Therefore, the marketing of services is an important segment of

marketing, thereby gaining more popularity among consumers due to the ease and comfort it provides to them.

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1.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the meaning and definition of services
- Discuss the classification of services
- Describe the characteristics of services
- Explain the difference between product and services

1.2 SERVICES: MEANING AND DEFINITION OF SERVICES

It is difficult to provide a single definition of service. Most attempted definitions are incomprehensible. The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service-product mix that a company offers.

At one level, service is an intangible offering with little or no transfer of physical products to the customer. Car rentals, insurance and education are examples of such services. The physical goods associated with the offering do not matter to the customer and he is primarily interested in the service part of the offering.

At another level, service is one part of the product-service mix being offered to customers. Restaurants are examples of such services. The physical goods are as important as the service part of the offering and customers have to be satisfied with both parts.

At the third level, the main offering is the product, but the supplier also provides some services. Car service and installation of equipment are some such services. The product is the main consideration when a customer is evaluating such an offering but in times of increasing product-parity, such ancillary services become the differentiating factor between offerings of competitors.

At the fourth level, every product or service or any combination of a mix of the two ultimately is supposed to provide service for customers. Thus, a customer buys a car because it provides him transportation services. This idea is gaining ground as companies are increasingly trying to become customer-oriented.

Definitions of services

According to www.marketingpower.com, service(s) mean:

1. Service(s) mean products, such as a bank loan or home security, that are intangible or at least substantially so. If totally intangible, they are exchanged

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directly from producer to user, cannot be transported or stored, and are almost instantly perishable. Service products are often difficult to identify, because they come into existence at the same time they are bought and consumed. They comprise intangible elements that are inseparable; they usually involve customer participation in some important way; they cannot be sold in the sense of ownership transfer; and they have no title. Today, however, most products are partly tangible and partly intangible, and the dominant form is used to classify them as either goods or services (all are products). These common, hybrid forms, whatever they are called, may or may not have the attributes just given for totally intangible services.

2. Services, as a term, are also used to describe activities performed by sellers and others that accompany the sale of a product and aid in its exchange or its utilization (e.g., shoe fitting, financing, an 800 number). Such services are either presale or post-sale and supplement the product, not comprise it. If performed during sale, they are considered to be intangible parts of the product. The American Marketing Association defines services as – 'Activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods.'

1.3 IMPORTANCE OF SERVICES IN THE INDIAN ENVIRONMENT

The importance of services in the Indian environment has increased at a rapid pace. Not only has it led to a growth in employment but also led to the economic development of the country.

The problem of measuring services activity

Measuring the services sector can present as many problems. Service sector statistics have not been recorded with the same degree of accuracy as the primary and secondary sector statistics. A number of services fall short of fitting neatly into the given categories, which makes obtaining a comprehensive image of the sector difficult.

Problems arise in measuring services, particularly overseas trade, because of their intangible nature. While it is quite easy to identify and measure the flow of tangible goods through ports, the same is not true of the flows of services. As far as a number of organizations in the primary and secondary sectors are concerned, numerous people are given employment in service-type activities such as transport, catering and cleaning. However, output and employment are attributed to the manufacturing sector. But now, the manufacturing industry are contracting the services to external suppliers and thus the output can be attributed to the efforts of the service sector to make itself look larger despite the absence of any additional services being produced—it is simply a matter of switching from internal to external production.

Key trends in a developed economy

The importance of services to the economy has been increasing rapidly. The three methods that can be employed for assessing the changing relative importance of the service sector to the economy involve considering the following:

(i) The contribution made by services to the balance of payments

(ii) The proportion of the labour force employed in the sector

(iii) Its share of the GDP

International comparisons

The services sector has accounted for most of the worldwide growth in employment since the oil crisis in 1973 but there are still significant differences in their impact between countries. It seems that there is a high correlation between an economy's level of economic development (expressed in terms of its per capital GDP) and the strength that its service sector possesses, although whether a strong service sector leads to economic growth or is the result of growth is not clear. The more developed economies are associated with higher per cent of workers employed in the service sector, such as USA (75.6 per cent, Canada (75.2 per cent) and Australia (74.2 per cent). Less developed countries have fewer people employed in the services sector.

The service sector as a vehicle for economic growth

Growth in the service sector can result in economic growth to a nation in three ways:

(i) By offering an exportable activity which results in a net inflow of wealth

(ii) By reducing the need to buy in services from overseas that consume domestically produced wealth

(iii) By combining with other primary and secondary activities that allow new production possibilities for manufactured goods, increasing exports and reducing imports.

Services are often crucial in facilitating productivity gains in the other sectors of the economy. Transportation and distribution services stimulate economic progress. If such basic services are found to be lacking, it may cripple the growth of the other sectors of the economy. It is possible for services to have a multiplier effect on national and local economics insofar as expenditure is triggered by the initial spending with the producer of a service. Money is spent by the first producer in purchasing supplies externally, while these external suppliers buy further inputs. The multiplier effect of this can be seen in the fact that the initial spending results in the total growth in household incomes being much more than the original expenditure. For example, festivals or shows first create direct employment within the event themselves and then their ripple effect can be felt in other services such as hotels, restaurants, transport, etc.

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Improving the efficiency of certain services such as distribution and transportation can positively affect the productivity of the other sectors. The service sector must be a valuable tool of regional development, for many services can involve a considerable labour-based production element. A major portion of the growth of the service sector reflects the buoyancy of the other two sectors. With the increase in the level of activity in the manufacturing sector, it has been observed that the demand for services such as business travel, legal services and accountancy services has also risen.

1.4 CLASSIFICATION OF SERVICES

The service sector covers a diverse range of activities. This diversity is apparent in the distinction between a complex global travel agency and a small, local plumbing service. It is important to identify the smaller service categories and subject them to analytical frameworks that are suitable for that particular service category. Services are usually classified on the basis of the type of activity they perform. Classifications such as hotels, shipping and banking have their basis in similar methods of production. But marketers do not find such simple classifications very useful. A wide range of activities having distinct marketing needs can be covered by a single production sector. For instance, five star hotels and small lodges come within the purview of the same sector, but have different marketing needs. Moreover, the majority of services usually combine numerous other services; for instance, retail stores provide banking services. Further, a specific production-based subsector might have certain marketing needs in common with some other unrelated subsector instead of the other subsectors within its own sector. Subsectors must be identified by the marketer in terms of similar marketing needs. For instance, providing hotel services and carrying out shipping operations are similar in that the process by which customers arrive at buying decisions and interact with a company’s employees is similar. Reducing the number of categories has been complicated by the diversity of service offerings. The following are the basis for classifying services:

Marketable vs. Unmarketable

Services are often categorized into marketable and unmarketable services. The latter refer to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time. For instance, a number of government services are offered with the aim of providing benefits to the public, without any charges. This happens because excluding individuals from benefiting from the service (e.g. footpath) is not possible. The benefits are external. This means that confining the distribution benefits only to those who have agreed to some mutual exchange relationship is impossible. A number of public services do not cause rivalry in consumption; in other words, one individual’s indulgence in the service does not come in the way of another individuals’ enjoyment of the same.

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The other important service group that is considered unmarketable by a number of cultures includes domestic activities such as child rearing and cooking. Though some of these services are commonly marketed, some still consider that for the proper functioning of a family unit, these services should be internally provided.

Between these two extremes lies an entire array of services that are dynamically classified and that reflect the alterations in the technological, social, economic and political environment. Many have attempted to internalize the external benefits of public services in order to make them marketable. There are proposals for toll roads based on the marketing principles of selling relatively uncongested road space to motorists.

Producer vs. Consumer Services

Producer services are the services provided to businesses to enable them to produce services having economic benefits. Customer services are the services used by individuals for their own benefit or gratification. The consumption of consumer services does not result in any economic benefit (e.g., hairdresser).

A number of services are simultaneously provided to both the producer and consumer markets. Marketing needs should be adapted for meeting the distinctive requirements of each user group. For instance, the service provided by airlines is primarily similar for both the consumer and producer markets; however, their marketing programme may be such that better short notice availability and quality may be emphasized for the former and lower price may be emphasized for the latter.

The status of the service in product offering

Some elements of both goods and services are combined in the majority of products. It is possible to classify services on the basis of their role in the total offerings. There are three principal roles that services perform:

- Pure services exist in cases where the evidence of tangible goods is minute; for instance, a management consultancy service or insurance policy services. The minimal tangible element that does exist performs the role of supporting the intangible service; for example, the intangible service of transport is supported by the tangible aircraft.
- The role of the second group of services is the addition of value to tangible products. This occurs when the core tangible products of a manufacturer are supplemented by extra service benefits such as after sales services. Services may also be sold as discrete products that are purchased by customers for adding value to their own goods (e.g., car insurance).
- Some value may be added to products by the third group of services simply by means of making them available in the market. Services such as delivering tangible goods from the point of production to the final destination required by the customer and providing some means of purchasing the tangible good

through extension of credit (mortgage houses and transport) are facilitated by this group of services.

Tangible vs. Intangible Services

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A grey area exists between pure services at one extreme and pure goods at the other. Much of the intermediate greyness can be explained in terms of the extent to which the offer includes tangible elements. The degree to which intangibility is present in the service offers is derived primarily from the following three sources:

- Tangible evidence of service performance
- The physical environment in which the service is produced or consumed
- The inclusion of tangible goods in the service offer and the consumers' consumption of them

In cases where goods make up a significant element of the service offer, it becomes possible to apply to the service offer a number of practices having to do with the marketing of goods. For instance, both intangible services and tangible goods are represented by restaurants. It is possible to separate the production of goods from its consumption, and its perishability also assumes less significance than the perishability of an empty table. Customers are given an opportunity to judge the restaurant's quality on the basis of the visible evidence of the tangible components.

The physical environments in which the service encounter occurs and the goods are exchanged comprise the tangible elements of a service offer. The staff's appearance, their cleanliness, the building's design, etc. are the significant tangible evidence that form the criteria for differentiating one service provider from another. While certain services abound in such tangible uses, others such as insurance do not.

Evidence of the method of producing the service also provides tangibility. A number of services allow customers to be present during the production process. Customers see this tangible evidence before arriving at a conclusion about purchasing a service either by observing directly or by watching while it is performed for someone else or indirectly by means of hearing someone else's description of it. However, very few tangible cues are provided by certain services regarding the nature of the process of producing the service. Portfolio management services are not only produced without the customer being able to view the production process, but specifying the outcome of the service too may be extremely difficult.

Intangibility tends to increase the levels of uncertainty that consumers perceive in making purchase decisions. Marketers should compensate for this by focussing on the management of the tangible evidence of the service offer. Heightened uncertainty resulting from intangibility is often also addressed by developing strong brands to provide reassurance.

Extent of customer involvement

While it is possible to provide services such as personal care only with the full participation of customers, other service processes ask for little more than the

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initiation of the service by the customer. The customers are fully involved in the process of producing and delivering the service. For instance, when a hairdressing service is being performed, the interactive nature of the service requires that a set of questions related to the emerging style and length of the hair be answered by the client. For these customers, the quality of the process of producing the service is as important as the outcome. On the other hand, a customer listening to the radio does not have to be so involved.

The level of customer participation is usually lower in the case of services that are performed on the customers' possessions (car service) rather than directly on their body or mind. Here, the primary task that the customer performs is initiating the service and monitoring its performance. One way of monitoring a service would be to examine the physical tangible evidence of its performance; for instance, examining whether a piece of cloth has been stitched in the manner required by the customer. It is also possible to monitor the performance of a service by looking at the intangible evidence; for instance, checking the statement made on behalf of a client regarding an investment.

Because it is relatively more difficult to maintain consistent production standards for services, many service providers reduce the level of customer involvement in the production process. This has been made possible by simplifying the service production process and by addressing distant communication by mail or telephone.

Degree of variability

The following two dimensions of variability can be used for classifying services:

- The extent to which it is possible to deliberately vary services for meeting individual customer requirements.
- The extent to which the standards of production vary from the norms, in terms of both the production process and the outcome.

In the case of services that require customer to actively participate in the process of production, variability in producer standards assumes importance; for instance, a one-to-one situation such as hairdressing that involves the provision of labour-intensive personal services. Greater scope is allowed for quality control checks during the process of production by certain services. This ensures that a superior level of service is consistently provided. This holds good for machine-based services.

In the present day, the general tendency is to regard equipment-based services as having less variability than the services that involve a high level of personal interference in the process of production. A number of service firms adopt equipment-based methods of production for reducing variability and building a strong brand. Some of the most common steps taken by firms in this regard include computerizing the voice systems to replace human telephone operators and automating the banking service. At times, personal variability can be decreased by transferring some portion of the production process to the customer. An example

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of this would be a self servicing petrol pump that is independent of the variability of the serving staff.

Variability also has to do with the degree to which it is possible to deliberately customize a service for meeting individual customer requirements. Given that the creation and consumption of services is a simultaneous process and that the consumer takes part in the process of production, manufactured goods offer more opportunities for customization than services. The degree to which it is possible to customize a service depends on the methods of production that are use. Thus, little scope is offered for individual customization by services that are produced for numerous customers at the same time. For instance, individual customer requirements cannot be taken care of in the structured methods of production of a railway system, unlike the more flexible methods of taxi drivers.

The degree to which it is possible to customize services is a function of the decisions taken by the management about the level of authority they wish to delegate to the front line staff. Encounters with customers are often industrialized by service organizations. This means that standardized processes are followed during every encounter. Although the flexibility of the producers in meeting customer needs is reduced by industrialization, the consequence is a reduction in the outcome and process variability.

It is in services with low variability in both dimensions that brand building by service forms assumes great importance.

Pattern of service delivery

Service delivery has the following two aspects:

(i) Whether a service is supplied as a series of discrete transactions or on a continuous basis

(ii) Whether a service is supplied within an ongoing buyer-seller relationship or casually

In terms of continuity of supply, the first set of services is bought only when there is a requirement for them as a series of discrete transactions. This is often the case for undifferentiated services carrying a low value, and which can be impulsively purchased or without much conscious research (e.g., cafes, taxis, etc.). This also holds true for specialized services having a high value that are bough only when they are needed (e.g., wedding services). There are other services where supplying the services on a casual basis is an impractical idea. This is usually the case for services whose methods of production come in the way of offering the service only when it is required (e.g., telephone lines cannot be provided only when they are required), or when the there is a continuous need for the benefits provided by the service (e.g., insurance policies).

It is common to associate continuous service supply with a buyer-seller relationship. This happens when the service is produced/consumed over a long period of time (medical treatment), when the benefits can be enjoyed only at the end of a long period (investments), or when a high degree of perceived risk is

encountered by the purchaser. It is possible to diminish the transaction cost of searching for and ordering services afresh every time they are required (annual maintenance) by opting for supply through an ongoing relationship instead of discrete transactions.

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At times, supplying the essential elements of a particular service through an ongoing relationship, but supplying the supplementary service benefits only when required makes sense.

Attempts are made by service marketers towards moving customers into categories where the provision of services is continuous and not discrete and as part of ongoing relationships instead of casually. It is possible to achieve the former if incentives are offered for purchasing a continuous stream of services benefits (e.g., attractively priced annual travel plan, seasonal tickets, etc.).

Pattern of demand

Only a few services have a stable demand pattern over a period of time. A number of them display considerable variations, in daily (bars), weekly (weekend rush), seasonal or cyclic terms. The pattern of demand may also be unpredictable. The perishability of the services can pose serious problems for services facing a very uneven pattern of demand.

Significance of the service to the purchaser

There are certain services that frequently purchased, carry a low value, are rapidly consumed and are likely to be bought impulsively without any pre-purchase activities. Only a minor portion of the buyer's total expenses may be represented by such services and matched by the goods marketer's description of fast moving consumer goods. On the other hand, long lasing services are not bought very frequently, and if at all they are bought, it takes longer and requires the participation of more people to arrive at a decision (e.g., packaged tours).

Numerous measures have been identified in order to classify services; however, in practical terms, it is necessary to simultaneously classify services by a number of criteria in order to facilitate the identification of groups of similar types of services.

Check Your Progress

1. What are the methods employed for assessing the changing importance of the service sector to the economy?
2. How can the service sector lead to economic growth of a nation?
3. Give an example of unmarketable services.
4. What is the difference between producer services and consumer services?

1.5 CHARACTERISTIC FEATURES OF SERVICES

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There are numerous distinctive features that distinguish pure services from goods and that affect the manner of marketing them.

Services cannot be assessed

Services are essentially intangible in nature. Goods, on the other hand, are tangible. Tangibility allows customers to assess quality by using various senses and choice criteria. For instance, quality of products can be assessed by touching, feeling, smelling, or seeing them. Services, being intangible cannot be touched, felt, seen or owned. Since services are essentially experiential in nature, customers can judge them only after purchase. But this raises the perceived risk associated with them. Therefore, marketers use various tangible elements and quality cues, such as infrastructure in hotels, advertisements, qualifications of doctors in hospitals etc. to convey quality.

Production and consumption are inseparable

It is not possible to separate the production and consumption of services. They occur simultaneously. This raises the issue of managing demand. Companies must be able to predict likely demand for a certain period as accurately as possible. If demand forecasting is not very accurate, it can lead to long waiting periods, or lean periods. Either of these situations results in losses for the company.

Services cannot be stored

If service organizations do not have the ability to accurately estimate demand, there would either be idle capacity that would perish (for instance, hotels during lean periods), or there would be too much pressure on existing capacity (for instance, the same hotels during peak tourist seasons). Capacity needs to be utilized as and when it is generated. Therefore, marketers should try to even out demand by using various strategies such as promotional pricing, advance appointments, and so on.

Services are variable

Variability in services occurs due to the one-on-one interaction between an employee and a customer. Most services encounters involve interactions between an employee and a customer, both of whom are subject to vagaries. Service encounters thus cannot be standardized completely. Goods are produced of a certain quality that can be specified, and since machines are involved in the process of production, goods of exactly the same quality can be produced every time. However, due to the involvement of human beings in services, variability invariably creeps into the service delivery process. This affects the perceptions about service quality. In order to reduce variability, companies have used various methods such as extensive training for employees and customers, usage of technology as a substitute for employees, etc. However, it is not possible to completely substitute technology in case of most services. Some services such as those of a hairdresser or that of a surgeon cannot be substituted with technology.

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Other features

A wide range of services are provided on a very small scale where economics of scale are minimal. Hairdressing, plumbing, legal services are usually provided by small units. These small players are less likely to undertake marketing research or have formalized marketing planning process.

There is presence of many public sector suppliers, because market mechanisms fail to distribute services effectively. The nature of service supply often creates potential monopoly problems.

Marketing environment of service organizations is subject to much more regulation than the goods sector. The fact that a service is intangible makes it more difficult for a potential customer to examine fully before purchase. Service supply involves a greater degree of trust than the supply of goods and consequently, regulations often seek to ensure that service delivery meets specification.

Highly intangible services such as banking, insurance and holidays are regulated by a combination of voluntary and statutory measures. In some sectors, customers seek to reduce their perceived risk by selecting only organizations that agree to have their relationship governed by trade association's code of conduct.

1.6 GROWTH OF THE SERVICE SECTOR

It can be seen from the overall macroeconomic indicators for the year 2006-07 that a growth momentum, responsible for delivering a more than 8 per cent GDP in the two previous years, had been maintained. This offered some respite from the extraordinarily high prices of crude oil that had been prevalent in the past year; the Central Government's budgetary deficits were kept in check by buoyancy in tax revenues and a remarkable growth rate was observed for foreign capital inflow, especially FDI and merchandise exports. There were increases in the policy interest rates by the RBI during the year including an increase in CRR, signalling a need for caution in lending activities to the banking sector. Generally an upward movement in stock prices, high levels of business optimism reflected in the Business Confidence Index, and articulation of a framework for accelerating economic growth over the next five years by the government are indicative of both anticipation of high growth and planning.

The first half of 2006-07 has experienced nine per cent growth in real GDP over the same period last year. The strong growth was achieved on the back of good performance by manufacturing sector and services. Agricultural growth was impressive, primarily reflecting the poor production conditions of the previous year's monsoon. GDP from agriculture and allied sectors increased by 2.5 per cent in the first two quarters over the same period in 2005-06 as compared to a growth of 10 per cent or more in the case of industry and services. The growth story has, therefore, been in industry and services.

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The main question now relates to whether this growth can be sustained into the future. The year has witnessed a high output growth along with a high inflation rate. This has led to some apprehension regarding the supply constraints that might be emerging in certain sectors of the economy. The strength that the conventional demand constraints had, that resulted from conditions like scanty rainfall during monsoons that used to hamper growth, now seems to be declining as a result of the continued growth witnessed in external demand.

There are some alternative ways in which this question can be addressed. At the sectoral level, a problem faced by the agricultural sector has been insufficient rainfall in the current monsoon season. There were periods of deficient rainfall and also excessive rainfall during the month-long monsoon. Across the regions also there was an uneven experience with the monsoons in the current year. The North and South saw rainfall which was less than the long-term average whereas in the East and West the rainfall was above long-term average levels. Rainfall in the post-monsoon period of October-December has been less than long-term average for the period. Thus, output growth of agricultural sector is likely to be lower than in the previous year when real GDP from this sector increased by 3.9 per cent. The output of food grain has consistently fallen below the targets fixed by the government at the beginning of the crop season in each of the last four years. The upward pressure on the primary article prices has continued.

For the primary agricultural commodities, the WPI (Wholesale Price Index) went up by 5.4 per cent in the April-November 2006 period, as against the 2.2 per cent growth in the same months in 2005. However, the price rise was contributed largely by wheat and pulses indicating that output growth may not be uniformly poor in all commodities. GDP growth has been essentially growth of industry and services. The Index of Industrial Production (IIP) during April-November 2006 for manufacturing sector increased by 11.6 per cent over the same period in the previous year. This is despite the sharp fall in the growth rate of IIP in October 2006. Except for the consumer goods sector, the IIP for the other use-based industrial sectors, the annual growth rate for the period April-November 2006 has been higher than the annual growth rate for the entire year of 2005-06. IIP growth for the entire industry during 2005-06 was 8.2 per cent. However, it should be noted that GDP from construction sector in the first half increased by a lower 9.7 per cent per year as compared to the annual growth rate in excess of 12 per cent in the same period of the previous year. The annual growth rate of production of cement and steel was slower for April-November 2006 as compared to the same period the previous year.

In the case of services, GDP of the sub-sector that includes communications increased by over 13.5 per cent on annual basis in the first half of 2006-07. GDP from the finance, real estate and business services has grown by 9 per cent year-on-year basis in the first half of 2006-07. The service sector, therefore, retained its momentum of growth at about 10 per cent per year for well over two years. The financial, transport and telecom sectors are expected to continue to be sources

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of medium term growth, particularly as they extend their reach to the currently under-served rural areas.

The output trends therefore suggest a continuation of momentum of growth in the short-term. However, the growth of agricultural output is not likely to be strong. There is some slowing down of growth in the construction sector and consumer goods output. The main sources of accelerated demand growth have been exports and investment. The rise in exports has been in tandem with the global trend.

However, there are some concerns. On the external trade front, the stalled multilateral negotiations point to lowering of gains from liberalized trade regime worldwide. The growth of exports is not giving the kind of push to employment as may have been expected. Growth of exports is not taking place in all the sectors or to all destinations, raising the concern that attaining greater competitiveness in international markets is still a goal to be achieved.

Services sector in the Indian economy

A stabilized growth rate has been maintained by the Indian services sector since 1996-97, with the exception of 2000-01. Communication, transportation and hotels achieved the highest growth rate of 11 per cent in the first three quarters of 2005-06, with the business services, real estate, insurance and finance sectors following close behind with 9.2 per cent. A growth rate of 9.6 per cent has been achieved by the overall services-a little more than the 9.3 per cent attained in the same period in 2004-05.

Numerous reasons can be attributed to this; however, the chief one would perhaps be the continuation of the reform process in spite of the change in the government. Along with this reform process, the outsourcing boom, the growth in urban consumption and the investment cycle upturn have contributed to the economic growth witnessed in recent years. The South East Asian economies that have grown largely due to their exports offer an absolute contrast to this. Communication, transportation, the hotel industry and trade have been the primary contributors (contributing about 60 per cent) behind the sector's remarkable growth. The rise in imports and exports too escalated the growth rate of the trade sector. An improvement was also seen in the activities of the hotel industry as a result of the progress in tourism, especially leisure and business travel. A robust growth was recorded by the transport sector as well, consequent on the increased production of vehicles for commercial use and heightened cell phone usage. The development of the insurance business through the private and public sectors, the rise in the revenue expenditure of the government and bank deposits and the extension in non-food credit, abetted the growth of the financial and insurance sectors. A huge potential for employment generation has been fostered by the advances in tourism and tourism-related services. The growth in IT-enabled services like knowledge and business process outsourcing is expected to continue. India has now become a key exporter of software professionals and services due to the increase in the number of English-speaking skilled manpower.

1.6.1 Economic Policy on Services

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The following factors are responsible for stimulating the transformation of service economy:

1. **Government policies:** It includes variation in regulation, i.e., making changes in the price of services in different geographical boundaries with a well-versed distribution strategy. In some cases, it is necessary to define the features of the product. During the last few years, the government has reduced the continents on different hospitality industries, for example, hospitals, banking and insurance, tourism, telecom industries, aviation, etc. It has given industries a chance to expand their service structure. The industries are getting privatized rapidly as barriers have been reduced and privatization is taking place mostly in the countries of Europe and Asia. In many countries, consumer protection law has gained great momentum and significance. It basically protects the rights of employees, maintains the standards of health and safety, and safeguards the environment. Fresh agreements on trade and services in international trade have been mutually signed between some neighbouring countries like Canada, Mexico and the United States. The World Trade Organization (WTO) is a platform for relaxing trade restrictions between countries.
2. **Social changes:** The rising expectations of consumers in terms of services from different service providers have been increased and there is dual income. The number of service providers has increased and everybody needs the kind of service that penetrates the core of their comfort zone within a short period of time or the time when they need it most. The affluence of people has increased because of more disposable income and there is a drastic increase in the purchase of new and different types of services and experiences. As there is an enhancement in technology, reduction in prices and increase in the purchasing power of people, the demand and supply for digital equipments has also increased. Due to improved medical facilities, the death rate has reduced and the life expectancy of people has increased. Most of the first world countries like USA, UK, Australia and Canada have an increasing immigrant population.
3. **Business trends:** Many manufacturing companies have concentrated on customer services in order to maintain their customer loyalty and attract more sales. Public organizations such as BMTC along with some NGOs have focused on the business which is related to their operations in order to give attention to consumer needs and other activities influencing it. There are certain standards and criteria which have been mandated by the government for the practitioner and professionals. The government has given relaxation in terms of advertisement and also revoked the ban on advertising their services. The best example is Dr. Batra's Homeopathy Clinic. They have enhanced their financial status within a short span of time due to advertisement policies. Their market focuses on increasing their productivity

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and also saves the real cost for providing the service. Nowadays, in large organizations, the main focus is on the quality of services they are providing to consumers. In order to provide good quality services, they have started franchising so that it will be easier to operate in a wide network, granting ownership to different proprietors. Companies like to hire innovative people in order to improvise new methods for conducting their business.

4. **Advanced information technology:** There is no doubt that the rapid innovation and advancement in Information Technology has brought a revolution in the service industries. Nowadays, most of the marketing can be done through the internet. Digitalization is a boom to service industries as well as other industries. The increased bandwidth and innovation of divergent software has made life easier.
5. **Globalization:** Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. The concept of MNCs, TNCs and FDI has taken centre-stage due to globalization. International trade has become easier and more convenient with the advent of globalization.

1.6.2 Differences between Goods and Services

Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. For example, a car buyer now buys a comprehensive bundle of service benefits, in addition to the tangible components of the car. However, there is a distinct difference between them and it is important to establish some working definitions. One way to think of them is from the clients' point of view. When a client asks 'what can you make for me?' they are asking about products; when a client asks 'what can you do for me?' they are asking about services. While a product is something that can be measured and counted, a service is less concrete and is the result of the application of skills and expertise towards an identified need. A product is something you can point at, whereas a service, as *The Economist* defines it, is any activity 'you can't drop on your foot' although this definition doesn't hold up when the products are digital in form – weightless objects that have no mass or material definition aside from the physical media on which they exist.

Products

Products are tangible and discernible items that the organization produces, including digital file-based output. Examples of products from the Digitization Services Branch:

- digital files sent to a network storage system (NAS/SAN)
- new prints of motion picture film elements
- prints for exhibit purposes
- reference copies on DVD/CDs for the Reading Rooms or other clients

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Services

A service is the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need. Sometimes services are difficult to identify because they are closely associated with a good; such as the combination of a diagnosis with the administration of a medicine. Examples of services from the Digitization Services Branch:

- consulting with clients on appropriate products for specific purposes
- providing advice on risk assessment and priority setting
- working on standards committees
- conducting training and other educational outreach

Check Your Progress

5. Why are services considered intangible?
6. What is the difference between product and service?

1.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The three methods that can be employed for assessing the changing relative importance of the service sector to the economy involve considering the following:
    - The contribution made by services to the balance of payments
    - The proportion of the labour force employed in the sector
    - Its share of the GDP
2. Growth in the service sector can result in economic growth to a nation in three ways:
    - By offering an exportable activity which results in a net inflow of wealth
    - By reducing the need to buy in services from overseas that consume domestically produced wealth
    - By combining with other primary and secondary activities that allow new production possibilities for manufactured goods, increasing exports and reducing imports.
3. Domestic services such as child rearing and cooking are considered unmarketable by a number of cultures.
4. Producer services are the services provided to businesses to enable them to produce services having economic benefits. Customer services are the services used by individuals for their own benefit or gratification. The consumption of consumer services does not result in any economic benefit (e.g., hairdresser).

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5. Services are considered intangible as it cannot be touched, felt, seen or owned. Since services are essentially experiential in nature, customers can judge them only after purchase.
6. Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. While products are tangible and discernible items that the organization produces, a service is the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need.

1.8 SUMMARY

- At one level, service is an intangible offering with little or no transfer of physical products to the customer. At another level, service is one part of the product-service mix being offered to customers. Restaurants are examples of such services. At the third level, the main offering is the product, but the supplier also provides some services. Car service and installation of equipment are some such services. At the fourth level, every product or service or any combination of a mix of the two ultimately is supposed to provide service for customers.
- Problems arise in measuring services, particularly overseas trade, because of their intangible nature. While it is quite easy to identify and measure the flow of tangible goods through ports, the same is not true of the flows of services.
- The service sector covers a diverse range of activities. Services are often categorized into marketable and unmarketable services. The latter refer to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time.
- Services can also been categorized into producer services and Consumer services. Producer services are the services provided to businesses to enable them to produce services having economic benefits. Customer services are the services used by individuals for their own benefit or gratification.
- Services can also be classified on the basis of its tangibility. The physical environments in which the service encounter occurs and the goods are exchanged comprise the tangible elements of a service offer. Intangibility tends to increase the levels of uncertainty that consumers perceive in making purchase decisions.
- While it is possible to provide services such as personal care only with the full participation of customers, other service processes ask for little more than the initiation of the service by the customer.

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- The following two dimensions of variability can be used for classifying services:
  - o The extent to which it is possible to deliberately vary services for meeting individual customer requirements.
  - o The extent to which the standards of production vary from the norms, in terms of both the production process and the outcome.
- Service delivery has the following two aspects:
  - o Whether a service is supplied as a series of discrete transactions or on a continuous basis
  - o Whether a service is supplied within an ongoing buyer-seller relationship or casually
- There are numerous distinctive features that distinguish pure services from goods. Services are essentially intangible in nature. Goods, on the other hand, are tangible. It is not possible to separate the production and consumption of services. Services cannot be stored and marketers should try to even out demand by using various strategies such as promotional pricing, advance appointments, and so on. Services are subject to vagaries and therefore variable.
- Government policies, social changes, business trends, advanced information technology and globalization are some of the factors responsible for stimulating the service economy.
- Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. While products are tangible and discernible items that the organization produces, a service is the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need.

1.9 KEY WORDS

- **Developed economy**: A developed economy is an economy (country) with a high level of economic activity characterized by high per capita income or per capita gross domestic product (GDP), high industrialization, developed infrastructure, technological advancement, a relatively high rank in human development, health and education.
- **Tangibility:** It refers to the quality of being perceivable by touch. Services are considered tangible as it cannot be touched, felt, seen or owned. Since services are essentially experiential in nature, customers can judge them only after purchase.
- **Variability:** Variability is lack of consistency or fixed pattern. Services are variable as it involves one-to-one interaction between an employee and a customer, both of whom are subject to vagaries.

- **Product:** Products are tangible and discernible items that the organization produces, including digital file-based output.

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1.10 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on the problems of measuring the services sector.
2. Define unmarketable services.
3. Write a short note on service delivery.
4. What are the factors responsible for stimulating the transformation of service economy?

Long-Answer Questions

1. Discuss the classifications of services.
2. Explain the main features of services.
3. Discuss the growth trajectory of the Indian services sector.

1.11 FURTHER READINGS

Kapoor, Ramneek et al. 2011. *Service Marketing: Concepts and Practices.* New Delhi: Tata McGraw-Hill.

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UNIT 2 SERVICE MARKETING

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Structure

2.0 INTRODUCTION

In this unit, you will learn about the concept and significance of service marketing. Service marketing, a relatively new concept in marketing, emerged prominently in the 20th century and became an independent discipline. To understand service marketing, a thorough knowledge of the market is necessary. A key element is the customer behaviour, which will also be discussed in the unit. In order to be financially successful in a competitive market, the organization needs to manage the demand and supply. The strategies adopted by an organization will also be delved into.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the concept and significance of service marketing
- Discuss the customer's expectation in service marketing
- Describe the facets of demand and supply management in service business

2.2 CONCEPT OF SERVICE MARKETING

Service marketing is one of the essential parts of marketing and can be segregated into two main fields of goods marketing – marketing of durables, fast moving consumer goods (FMCG) and services marketing. Service marketing includes both business to business (B2B) and business to consumer (B2C) services. Service marketing encompasses the marketing of services like professional services, car

rental services, financial services, air travel services, telecommunication services and all types of hospitality services. The range of marketing of services is decided on the expectation of it being effective in conveying their message and ideas to the consumers and key prospects that are the receptives.

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Services are time-based and achieve the coveted results for the recipients or consumers and the assets or objects towards which a purchaser is responsible. They are the economic activities offered from the service-provider to the service-buyer. Service customers, in return for their effort, money and time expect good value from their access to the goods, professional skills, networks, facilities, systems and labour. However, no claims are made by the customers on any of the physical elements involved in the service.

Service marketing is a new concept in marketing and had emerged as a discipline around the end of the 20th century. This concept had first come to light during the 1980s, when a debate had arisen whether services marketing was different from that of product marketing and should be classified as an independent discipline. Earlier, services were regarded as a mere aid towards the marketing and production of products and did not have a special relevance of its own. The marketing of services is intangible in nature. Services are consumed as soon as they are produced and cannot be collected, stored, resold or saved after their use by a consumer. Each service offered by a service provider is unique and the same service cannot be exacted by the provider.

2.2.1 Significance

It is difficult to provide a single definition of service. Most attempted definitions are incomprehensible. The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service–product mix that a company offers.

At one level, service is an intangible offering with little or no transfer of physical products to the customer. Car rentals, insurance, and education are some examples of such services. Physical goods associated with the offering do not provide major satisfaction to the customer who is primarily interested in the service part of the offering.

At another level, service is one part of product–service mix being offered to customers. Restaurants are examples of such services. The physical goods are as important as the service part of the offering and customers have to be satisfied with both parts of the offering.

At the third level, the main offering is the product but the supplier also provides some services. Car service and installation of equipment are some such services. The product is the main consideration when a customer is evaluating such an offering, but in times of increasing product-parity, such ancillary services have become the differentiating factor between offerings by competitors.

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At the fourth level, every product or service or any combination of a mix of the two, ultimately is supposed to provide service for customers. Thus, a customer buys a car because it provides him transportation services. This idea is gaining ground as companies are increasingly trying to become customer oriented.

Increasing importance of services

In most industrialized economies, expenditure on services is growing due to:

- Advances in technology that has led to more sophisticated products that require more services.
- Growth in per capita income has given rise to a greater percentage of income being spent on luxuries such as restaurant meals, overseas holidays, weekend holiday breaks. Greater discretionary income also fuels demand for financial services such as personal pensions.
- A trend towards outsourcing means that manufacturers are buying services that are outside the firm's core expertise (warehousing, catering).
- Deregulation has increased level of competition in certain service industries like telecom. This has resulted in expansion with more customers availing the services as prices are going down due to competitive actions. Simultaneously, companies are advertising more and wooing customers more stridently, further fuelling demand for services.
- Due to growth in per capita income, people are buying more goods, which have, in turn, contributed to making retailing an important service.

Services indeed are an important concept within marketing. Let us take a closer look at the hospitality industry in order to understand how deeply it is entrenched in the final outcome, which in this case is the abstract, subjective and intangible target of achieving customer satisfaction.

Indian hotels define peak season as high demand for hotels during October–April. Typically, December and March months are responsible for bringing in most of the revenue within this particular service sector. Of late, contingency on seasonality has been made less intense by introducing off-season exciting offers and packages. In addition to this, manpower is vital to the hospitality sector. The industry provides lucrative job options to skilled, semi-skilled labour. As per a 2008–2009 research, in India, the average employee-to-room ratio is 1.6. With regard to competition from other parts of the world, hotel owners in India need to rethink and restructure staffing requirements. Also, the Indian hotel industry is highly fragmented. Large numbers of small and unorganized hotels often divert the lion's share. Taj, ITC Hotels and Oberoi are a few well-recognized names within the hospitality sector.

Services have a greater and more direct impact on customers. As customers walk into restaurants they are immediately struck by the ambience. Few minutes into the facility, and most customers have already realized whether they have made

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the right choice of service provider. There are times when customers need services more than products. For instance, patients need the immediate attention of doctors. Also, it is important to note that due to its very nature, certain service providers interface directly with customers and therefore have more opportunities to please customers. For these reasons particularly, marketing of services has to be more deliberate and considered.

Resources and competencies have to be carefully audited and a subsequent market research has to be launched in order to locate the best possible segment. When the time comes for positioning, the provider must be focused and in a position to anticipate market trends. With regard to these factors, positioning has to be accurate as customers know exactly what they want and may change allegiance instantly if services provided are not up to expectations.

2.3 CUSTOMER'S EXPECTATION IN SERVICE MARKETING

A thorough understanding of the market, i.e., its location, the characteristics of its customers and the reasons behind their purchasing decisions, is necessary. Small geographical clusters of households can be identified by combining their purchase behaviour and their demographic characteristics. This data comes in handy when merchandising, store locations and direct-mail campaigns have to be planned. Clusters of customers can also be identified by means of an alternative qualitative approach that has its basis in analysing the elements of a specific service offering. This too is a benefit-based technique that distinguishes market segments. This may be followed by the service organization targeting the customers with special products designed in keeping with the requirements of the service.

2.3.1 Buyer Behaviour

The important factors to be considered in understanding consumer behaviour in services are as follows:

- The people that are a part of the process of arriving at a buying decision
- The time taken to arrive at the decision
- The competitive services from amongst which consumers have to choose the alternative they prefer the most
- The comparative significance that the person making the decision attaches to every element of the service offer
- The various sources from which information can be gathered to evaluate the competing service offers

A fundamental requirement that triggers a search for need-satisfying solutions is apparent from simple buyer behaviour models. The idea is to identify possible solutions and then evaluate them on the basis of certain criteria. The interaction

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between the final decision-maker and all those who influence him results in the final decision to purchase something. After purchasing and consuming the product, the customers develop impressions of their experience, which in turn influences the decisions they make in the future. A complex and iterative process, the service purchase decision process involves a variety of decision criteria and numerous influencers. Trying to comprehend the needs of the buyer can be difficult. It involves making a clear distinction between the needs and the expectations. Since services are intangible and it is not possible for customers to look into the nature or the quality of a service prior to consumption, it becomes all the more important to understand the sources of information that customers use to evaluate a service.

Few individuals make totally isolated service purchase decisions. Usually, other people influence in one way or the other, the final decision to make the purchase. Therefore, the key players in the purchase decision process must be recognized in order to configure the service format for meeting the requirements of the people and to adopt promotional messages that are aimed at these key players.

It is possible to identify many roles amongst the people engaged in the process of making the purchase decision. The people whom the final decision-maker refers to in arriving at the final decision are called the influencers. The final decision-maker may refer either to the primary reference group, which involves work colleagues, acquaintances and friends, or the secondary reference group, which involves remote personalities with whom two-way interaction does not take place. A strong influence exerted by the primary reference group on the buying decisions is indicative of the necessity of taking measures that can promote word-of-mouth communication. For instance, rewarding regular customers for introducing new customers. Analysing the secondary reference group that consumers refer to while making the purchase decisions can prove to be useful in many ways. It is indicative of the potential people whom the company can approach for endorsing the products in the organization’s advertisements. It also points out the opinion leaders who should be targeted by the company in its communication programme, for achieving the maximum possible trickle-down effect. This group may also include the media – purchase decisions can be influenced by what is written in a magazine article.

It is common to find gatekeepers amongst commercial buyers. They chiefly perform the role of acting as filters on the variety of services that are a part of the decision choice set. There are many forms of gatekeepers. For instance, secretaries who bar calls from salespeople to the decision-makers screen out numerous potential choices. Establishing who exactly the gatekeeper is can be difficult. Therefore, it becomes more difficult to identify market strategies that will be accepted by the gatekeepers or that will completely bypass them. In larger firms, particularly the public sector, only a select list of suppliers may receive the invitation for submitting tenders for a specific job. A service provider who has no place on the list would not be able to become a part of the decision set. Though it is common to associate

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gatekeepers with the buying of industrial services, they are also applicable to consumer purchases. In the case of a number of household services, the initial stage of the process of making the decision can involve collecting brochures or making telephone calls for inviting quotations for services. Although the final decision would be subject to shared discussions and action, it is more likely that the early part involving the collection of the decision set would be entrusted to a single individual.

In some cases, ordering a service may become a routine task, which the company may delegate to individuals. In the case of industrial services, old, low budget items are entrusted to the buyer's discretion. Where new purchases or altered rebuys are concerned, the chances of the decision-making unit being larger are higher.

The service users may not be the same as the individuals actually making the buying decision, especially in the purchase of industrial services. It is necessary to undertake research for revealing the degree of importance of the user element in the process of making the purchase decision. In the business air-travel market, for instance, the pressure exerted by the actual passenger on choosing a particular airline must be understood in opposition to the pressure exerted by a company buyer (having a long-term contract arrangement with a specific airline), a gatekeeper (who discards the promotional material of novel airlines) or others who influence the decision process (cost-concerned managers as against quality concerned users).

Decision-makers are the persons who make the final purchase decision in terms of executing the purchase themselves or instructing someone else to do the same. Identifying exactly who has the maximum authority to make the final purchase decision can be difficult in the face of a number of family-based services being available. Within a specific service sector, it is possible to realistically analyse the process of decision-making only through in-depth qualitative research. As far as decisions made by commercial buyers are concerned, it can be quite difficult to identify the individual who makes the final decision in the organizational hierarchy.

Choice Set

Most buyers of services do not act with total rationality — to do so would imply identifying all possible sources of supply and applying logical evaluation criteria to each.

Organizational buyers may act with somewhat more rationality than individual consumers, but they are still likely to show great scope for irrationality in decision-making. A company buyer may prefer the simple and relatively risk free approach of staying with the services with which he is familiar rather than reviewing all possible choices periodically. Research should seek to establish the choice set (i.e. group of services from which a final decision is made) against which a company's service is being compared and on this basis, the marketing programme can be adapted in order to achieve competitive advantage against other members of the choice set.

In the case of a proposed service, research may be undertaken to establish the criteria which consumers use to include a particular service with their choice set.

Models of Buyer Behaviour

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Normative rather than strictly quantitative explanations of the behaviours exhibited by the buyers are provided by the majority of buyer behaviour models. This is made worse by the lack of any guarantee regarding the validity of the assumptions in which the model initially had its basis. One of the most commonly applied frameworks used in consumer purchase decisions and incorporating many elements was developed by Howard and Sheth. The following are some of the elements incorporated in the model:

(i) *Input:* It consists of information regarding the variety of competing services that might gratify the requirements of the consumer. The company may obtain information from published or personal sources.

(ii) *Behavioural determinants:* A certain predisposition to act in a specific manner is brought by individuals to the purchase decision, which is moulded by factors such as personality, family and the culture they inhabit.

(iii) *Perceptual reaction:* Individuals may interpret inputs in a variety of ways on the basis of their distinctive personality type and the conditioning resulting from prior purchase experiences. While the advertising message of a travel agency may be readily accepted by one individual, someone else who may not have had a very pleasant experience with the same travel agency in the past may not be very likely to accept the credibility of such inputs.

(iv) *Processing determinants:* The manner of arriving at the decision is emphasized here. Some of the more significant processing determinants are a person's motivation to gratify a specific requirement, his experience with a specific firm in the past and the importance given to the factors considered while evaluating the service. In the case of certain consumers, there may exist certain service-critical product needs, which are necessary for the product to be included in the decision set. Sometimes, a lot of weight is attached by consumers to every attribute and the product with the highest weighted average score is selected.

(v) *Inhibitors:* Individuals may be prevented from proceeding towards arriving at a purchase decision for a specific service by numerous factors such as the accessibility of the service, its price as well as the terms and conditions of delivering the service.

(vi) *Output:* At the conclusion of the process of decision-making, the individual may wither decide to buy or not buy the service, or defer the decision for a later date. The intangible nature of services coupled with the consumer's inability to assess a service prior to consuming it leads to more complexity in collecting information and assessing a service. Fisk has developed another model specifically for services.

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According to Fisk's model, the purchase process is broken up into three phases—pre-consumption, consumption and post-consumption. In the first phase are included the assortment of activities that usually occur prior to a purchase decision being made. This phase begins by recognizing the problem, collecting information and identifying the choice set. The task of the consumers in this stage is the identification of the best solutions. In the second phase, decisions are made by consumers regarding the best choice on the basis of prior experience. They compare the expectations raised at the pre-consumption stage with the actual service delivery. A gap between the two indicates that the company should attempt to bring down the dissonance. For instance, if the company fails to meet the expectation, the consumer may resolve the dissatisfaction that results from it through complaints. In the last stage, the focus is on evaluating the entire service encounter and determining whether the consumers are motivated to continue using the service in the future. The model shows evaluation as three distinct elements whereas in reality a service is progressively evaluated.

Research into restaurant choice decisions revealed five key factors used in the evaluation of a restaurant – food quality, menu variety, price, atmosphere and convenience. However, the importance attached to each of these factors differed according to the purpose of the visit to the restaurant. The factors influencing a choice of restaurant for a celebration are quite different from those used for a general social occasion.

Consumer vs Organizational buyer behaviour

There are a number of reasons why the processes by which individual consumers' purchase services are usually different from the processes by which organizations purchase services.

(i) When a company purchases a service, two sets of requirements are simultaneously met—the company's formal requirements as well as the requirements of the individuals making up the company. While the formal needs of the company are more rational, the needs which individuals seem to gratify are affected by their behavioural and perceptual environment in a manner similar to individual consumer purchases.

(ii) Organizational purchase involves more people. It may be necessary to evaluate high-value services and get them approved at numerous levels in the firm's management hierarchy.

(iii) Organizational purchases are made according to formalized routines. For this, it may be necessary to delegate the task of dealing with previously assessed repeat service orders to a junior buyer. At the other end of the spectrum, it may be possible to make a number of high-value service purchases only at the end of a formal process of bidding and assessment.

(iv) If there are more people involved in organizational buying, it would take longer to go through the entire process. Lengthy feasibility studies are a

result of the concern with risk minimization that is present formally in most organizational objectives and informally in most individual aims. An important factor that purchasers concern themselves with at the time of evaluating rival suppliers is trust in the service supplier. Building a trustworthy relationship may take considerable time.

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(v) The components that are given more significance at the time of evaluating a service offering may vary. In the case of a number of services, while organizational buyers lay greater emphasis on performance characteristics and reliability, private buyers give more prominence to price. In numerous instances, poor service performance directly affects the financial position of the firm.

(vi) The need to reduce the risk of organizational buyers seeking the active cooperation of suppliers in handling problematic issues has resulted in more attention being paid to developing a better relationship between the seller and the organizational buyer instead of isolating individual purchases. Cooperation between the buyer and seller happens through social and information exchange as well as exchange of the product itself. Exchange of these elements may become routinized over time leading to clear set of roles and responsibilities that each party is expected to carry out. There is adaptation in each others' behaviour and material trust.

Positioning services

Competitive strategy is often narrowly focused at direct competitors i.e. firms which market products that offer a similar way of achieving the same benefits (colleges offering similar classes). However, there may also be a serious threat from generic competitors which offer customers a different way of achieving similar benefits (distance education).

It is important to highlight both opportunities and threats to the firm in the competitive marketplace, including the presence of generic competitors.

The basic steps involved in identifying suitable market positioning and developing a strategy to reach it are:

(i) **Market analysis:** This determines overall level and trend of demand and geographic location of this demand. Alternative ways of segmenting the market should be considered and an appraisal should be made of the size and potential of different market segments.

Research is needed to gain better understanding not only of customers' needs and preferences within each of the different segments but also of how each perceives the competition.

(ii) **Internal corporate analysis:** This identifies resources and limitations of its management. Using insight from this analysis, the organization is able to select a limited number of target markets which it is willing and able to serve with either new or existing services.

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(iii) **Competitive analysis:** Strengths and weaknesses of competitors are analysed, which suggests opportunities for differentiation. Relating these insights to the internal corporate analysis should suggest which benefits should be offered to which target market segments. The outcome of integrating these three forms of analysis is a positioning statement that articulates the planned positioning on the organization in the market.

2.3.2 Developing Relationships with Customers

The traditional marketing theory has focused attention on encounters as being a series of discrete events, viewed in isolation from preceding exchanges and without analysis of both parties' expectations for future exchanges. Some services can be supplied quite adequately on the basis of a series of discrete casual encounters. Most people who are hiring taxis would have little need for a relationship with a supplier.

A relationship-based series of encounters are useful for both customer and producer in the following circumstances:

1. Some services involve a multi-stage production process and it is not sensible for a customer to switch a services provider during production. This would require the new supplier to establish what has already been carried out during previous stages. A surgeon who keeps records is able to perform an operation with the benefit of the knowledge gained during previous examinations and operations. A new surgeon may have to begin afresh with diagnostic checks.
2. The service provider may be required to monitor the results of a service after it has been delivered and therefore needs to engage in some form of relationship. An engineer who has installed a new heating unit may need to check its operations after a certain specific time period.
3. Legislation may require that some form of relationship exists between a buyer and seller before a service can be provided. Sometimes a license allows a company to supply only to bonafide members of a club. In other cases, legislation may require that the supplier take steps to establish the true needs of the buyer before a service is agreed to. The Financial Services Act requires many categories of financial intermediaries to undertake an audit to assess the customer's financial circumstances before any commitments are made.
4. Where services are complex in nature or allow significant adaptations to meet customers' different needs, the customers are more likely to seek a relationship with suppliers. Risk tends to increase with complexity, and by establishing relationships, customers seek to reduce the level of perceived risk. In some markets, customers may seek

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reassurance which a relationship can bring in, in terms of the ability to obtain preferential treatment or semi-automatic responses to requests for services.

Customers signing up for a regular maintenance contract on domestic appliances avoid the need to formally initiate service requests each time a service is needed. By entering into such a relationship, buyers can also circumvent the high transaction cost that is a result of multiple service ordering.

5. Security in the relationship is sought by both the customer and the supplier when there is some turbulence in the market environment.
6. Developing a strong relationship can help the supplier of the service gain customer loyalty, even when rival brands try to challenge it. The development of a strong supplier-customer relationship helps the latter in differentiating the supplier's products and promotes their loyalty. As far as highly competitive markets are concerned, it may be possible for service suppliers to lure new customers only by incurring high costs in offering price incentives and engaging in promotional activities.

   For most services, the cost of recruiting new customers exceeds the revenue earned from the first transaction. It is only by pursuing a long-term relationship that an organization is able to make profits.
7. A more formalized relationship with customers facilitates the suppliers' task of collecting feedback from their customers. The aim is to move away from delivering goods and services by a series of discrete transactions towards continuous delivery through an ongoing relationship.

Strategies used by service organizations to develop relationships with customers

Relationship development takes place in five stages: awareness, exploration, expansion, commitment and dissolution. Relationships begin to acquire importance at the first stage when they are characterized by the sellers' attempts to attract buyers. At this stage, both the parties try to bargain and comprehend the nature of the power, norms and expectations that the other party holds. The expansion phase of the relationship results from the successful conclusion of the initial exploratory interaction between the parties. Exchange outcomes at the exploratory stage bring to surface clues about the appropriateness of the long-term exchange relationship. During the commitment stage, a certain extent of exclusivity is achieved between the two parties along with a reduction in the search for alternatives. The next phase (dissolution) entails recognition on the part of both the seller and the buyer that their respective goals can be better achieved outside the relationship.

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A number of strategies are used by service organizations for moving their clients through the various phases of the development of a relationship:

1. There is potential for a relationship to develop only where there is awareness on the part of both the parties regarding the existence of each other and their shared wish for entering into an exchange transaction. During the awareness phase, the two parties may not entertain similar views about the probability of the formation of a long-term relationship. As such, suppliers need to provide prospective customers with reasons for being disloyal to their current suppliers. In a few instances, service firms may offer lower introductory prices as an incentive for the disloyal customers of other service organizations to turn to other suppliers. Other firms may employ non-price related means of attracting attention such as direct mail and advertising that are directed towards particular sections in order to ensure that they are not encouraged to switch to other companies with lower prices. The adoption of this strategy entails some level of risk for the sellers in that the identification and exclusion of the sections that are likely to be most disloyal and thus withdraw from the relationship when the supplier is best positioned to start earning profits is difficult.
2. The sellers and buyers, when they enter into a relationship, promise certain things to each other. The former's promises lead the latter to entertain certain expectations regarding the standard of the service that will be delivered. A gap between the anticipated and the real service performance determines how customers perceive quality.
3. At the first encounter, service firms record information about customers that can come in handy in assessing their future needs.
4. Incentive for frequent users helps in developing short to medium term loyalty.
5. Companies try to create relationships by turning discrete service delivery into continuous delivery. Bus companies offer season tickets valid at all times, which keeps customers from having to make a choice between competing bus operators.
6. Some service organizations reward their customers for their loyalty by offering monetary incentives such as reducing the price for a future service, simple money-off vouchers and a club-type scheme which allows a standard level of discount for club members. However, purely financial incentives may end up defeating the primary aim of the supplier of obtaining the maximum value from a relationship. Initiating relationships can often be expensive; so organizations seek to gain profits during subsequent phases by inflating the margins to mirror the value attached by the customers to the relationship. A better bond can be forged between the supplier and the customer if membership

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schemes are sold to customers that facilitate discount at a later period. Once customers invest in a membership scheme, they are likely to rationalize their motives for capitalizing on it instead of switching over to another company.

7. Instead of offering price discounts, service firms can supplement the value of a relationship by offering non-financial incentives. For instance, a number of retailers offer special preview evenings to customers who have joined their membership club.
8. Companies can try to retain information regarding individual customer preferences to enable the tailoring of future requests according to these needs. For instance, travel agents can arrange accommodation for clients on the basis of information they may have gathered during a previous service encounter. Some value is added to the relationship this way, which in turn adds to the client's transaction cost of switching over to some other agent.
9. More intense relationships may be developed when a substantial amount of responsibility is assigned by the customer to the service provider to ascertain their requirements in this manner. For example, a car service station can go beyond providing a set of discrete customer-initiated services and assume absolute responsibility for the car's maintenance including problem diagnosis and routine servicing.

In some low-contact service industries, the development of relationships focus on interaction with a very limited number of people i.e. organization's sales force. Two important elements used to explain relationship quality are trust in the salespersons, and satisfaction with their performance. The role of the salesperson as a risk reducer is in terms of his ability to reduce the perceived risk of a highly intangible service purchase. The emerging relationship between buyer and seller is trust, which is a belief that a party is reliable and will fulfil its obligations in an exchange relationship while relationships may endure as a result of one or both parties having no choice but to remain with the other. Trust is a crucial function in a relationship which allows tensions to be worked out.

Relationship marketing has emphasised the producer's perspective on a relationship, but it can be argued that with more knowledge and confidence, consumers are increasingly happy to venture outside a long-term relationship with a service provider. Customers now occasionally change their banks with increased knowledge of financial services; consumers are more willing today to venture to another bank which offers the best personal loan for them. Also, a long-term relationship often begins with attractive introductory discounts and a significant segment of many service markets is prepared to move regularly to the service providers offering these discounts.

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Check Your Progress

1. Define service marketing.
2. List the phases of purchase process as per Fisk's model.
3. What are the steps involved in identifying suitable market positioning and developing a market strategy?

2.4 MANAGING DEMAND AND SUPPLY IN SERVICE BUSINESS

The task of managing markets and ensuring a good fit between supply and demand is more complex for services than for goods. Since the production and consumption of goods are separable, the manufacturers of goods have the option of holding stocks of goods that can be moved to even out imbalances in supply and demand. Stocks can also be built up for catering to peaks in demand.

Many of the strategies for managing supply and demand that are open to goods manufacturers are not available to service producers. The inseparability and perishability of services result in there being insufficiency in matching demand and supply in the long term, within the purview of a widely defined geographical market. Instead, it becomes necessary to match demand and supply temporally and spatially. It is neither possible to transfer an excess production capacity in one time period to another one of shortage nor is it possible to meet excess demand in one area with excess supply in another area.

There can be eight different demand situations:

1. Negative demand occurs where most or all segments in a market possess negative feeling towards a service, to the extent that they may even be prepared to pay to avoid receiving that service. Many medical services are perceived as unpleasant and are purchased only in distress, even though there may be benefit to individuals from receiving regular preventive treatments. There is criticism of increase in medical charges on the grounds that they will reinforce the negative states of demand for regular checkups, possibly at a greater long term cost to the individual. The task of marketing is to identify the cause of negative feeling and to counter these with the marketing programmes. The introduction of interior design, background music, friendly personnel and promotion campaigns to stress both the pleasantness of modern surgeries and the valuable long-term health benefits may overcome the problems of negative demand.
2. No demand occurs where a product is perceived by certain segments as being of no value. In the financial services sector, young people

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often see saving and pension policies as being of no value to themselves. The task of marketers seeking to create demand in such segments is to reformulate the product offering and promotional methods used so that the product's benefits are more readily comprehended by the target segments.

3. Latent demand occurs where an underlying need for a service exists but there is no product that can satisfy this need at an affordable price to consumers. New products have to be developed or made available at a price that would allow latent demand to be turned into actual demand.
4. Faltering demand is characterised by a steady fall in sales which is more than a temporary downturn. The task of management is to identify the causes of this downturn and to develop a strategy for reviving demand.
5. Irregular demand is characterised by uneven distribution of demand through time. The inability to store services from one period of low demand to others of high demand means that this pattern of demand poses major problems for many service industries. It can be overcome by a combination of demand management designed to reduce the irregularity of demand, and supply management aimed at meeting demand as closely as practical.
6. Full demand exists where demand is currently at a desirable level and one which allows the organization to meet its objective. The management task moves away from increasing the volume of demand to improving its quality by concentrating on high value activities aimed at high spending segments.
7. Overfull demand occurs where there is excess demand for a service on a permanent basis. The marketing task is to shift demand in a manner which does not cause long- term harm (e.g. shifting demand by high prices alone may build an exploitative image which may be harmful in the future) should demand need to be stimulated once more. It also involves increasing supply where this is possible, and does not detract from the exclusive image of the product.
8. Unwholesome demand occurs when an organization receives demand which it would prefer not to have. It may be forced to meet the demand because of legal requirements (the post office cannot refuse to deliver letters for customers who are very expensive to service) or because of a long-standing commitment to supply a service to a customer. The marketing task here is to try to eliminate new demand, reduce promotional activity and higher prices.

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Managing irregular demand

The inability to store services does not create problems as long as there is a certain degree of stability and predictability in the demand levels. The majority of services encounter significantly variant demand. Demand can peak in many ways:

- **Unpredictable variation:** Demand for telephone line repairs at the end of a storm
- **Cyclical variation:** Demand for engineering services
- **Seasonal variation:** Demand for personnel in bakeries in the run up to Christmas
- **Weekly variation:** Inter-city trains on Friday evening
- **Daily variation:** Bus services during evening and morning rush hours

In practical terms, a number of services encounter demand paradigms that follow many such peaks. Restaurants may experience seasonal peaks, weekly peaks (on weekends) or daily peaks (mid-days).

In order to be financially successful in a competitive market that faces uneven demand, service firms must match demand and supply, and that too at costs that are lower than that of rivals, or provide a higher standard of service, or both. Service organizations need to strategically view the level of demand that they seek to cater. In particular, they need to come to a decision about the extent to which they must endeavour to meet peak demand instead of turning business away.

A number of factors influence the precise cut-off point:

- It may prove to be quite expensive to provide for peaks in demand that do not occur frequently, particularly when the firm has to supply high level personnel or equipment that it cannot lay off or put to alternate use at the time there is a slack. For example, it may be necessary to use enlarged platforms at terminals for catering to only a few extra peak trains every day.
- Additional poor-quality customers may be brought in by peaks in demand. For example, having to cater to the comparatively more stable all year round local clients may be valued more by restaurants than the rare peaks in demand during the holiday season.
- If the output of a service organization exceeds the optimal level, the quality of the service may be adversely affected.
- An organization stands to lose precious core business if it fails to cater to peaks in demand. For example, banks that often experience queuing for cheque and cash facilities might risk losing their relationships with customers if they take not only their cheque facility to a rival bank but their insurance and mortgage businesses as well.

Optimum capacity

Optimum facility is defined as that for which a facility was designed. Extra demand may lead to the need for forming queues and therefore discomfort. The maximum available capacity sets the upper limit to which a service provider can deal with customers (a 52-seat bus can carry nearly 100 passengers during rush hours). While in the slack period, there is wastage of resources, at the peak, the service provider loses business in case demand is satisfied above the optimum capacity level, but at the cost of customer service. Following the arrival at a strategic decision regarding the level of demand, the company must develop tactics for matching demand and supply in every time period. This can be done in two parts:

- Management of the supply of the service to match the pattern of customer demand
- Management of the state of demand for evening out peaks

Managing Service Capacity

The output of a service organization is determined by the productive capacity of its equipment and personnel. The degree to which a firm is capable of adjusting its output for meeting variations in demand reflects the elasticity of these factor inputs. Capacity may be considered inelastic over the short term in cases where it is not possible to produce extra capacity (hotel rooms). It is considered elastic when it is possible to adjust supply in response to demand. Highly elastic supply permits organizations to fulfil their short-term demand changes with the introduction of extra capacity at short notice. At times, it may happen that the capacity is elastic, but only to a specific extent, and inelastic after that. Railway operators are capable of providing extra coaches for meeting passenger peaks until they run out of terminal facilities, thus making the supply inelastic at that point. Therefore, it is important to define a time frame when discussing elasticity of supply. Sudden demand shifts may make the supply inelastic, while adequate advance planning may make it possible to make up for extra capacity.

It is not possible to isolate supply management from time and operations management. Some general strategies used by service firms to enhance the responsiveness of supply are as follows:

- Scheduling personnel and equipment so that they can switch between alternative uses for reflecting the varying demand patterns. For example, large halls can be used by hotels for meeting peak demands for conferences during the day and for parties and banquets in the evening. Likewise, it may be possible to train personnel to perform varying tasks during periods of peak demand.
- Switching resources among multiple uses at short notice. For example, store assistants responsible for restocking shelves can be called on at short notice to perform more inseparable and perishable service functions like giving advice on products.

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- Bringing in capacity on a part-time basis, specifically when the demand peaks, including equipment (e.g., charter additional aircrafts during the holiday season) and human resources (e.g., hire bar staff only for the evening).
- Organizing operation in such a way that it becomes possible to carry out the maximum back-up work during periods of slack in demand. This specifically impacts the tangible element of the service offering. It is possible to service the equipment when demand is not so high (aircrafts), at which point, the personnel too can prepare as much as possible in the period preceding the peak.

Though it would be preferable to make the supply of service components as elastic as possible, it would not be desirable to view these elements in isolation. The benefits that could be provided by the elasticity in supply of a certain component can get negated if the supply of the other related service components is not equally elastic. For instance, a strategy that enables a tour operator to add to the carrying capacity of its aircraft at short notice would serve no purpose if the availability of accommodation too does not increase simultaneously. The critical bottlenecks that come in the way of satisfying customer demand must be identified by capacity management.

Managing the pattern of customer demand

In cases of demand being at its peak and the service firm finds itself unable to do anything about it, the end result is queuing for the firm's services. But this harms the long-term development of relationships and also denies short-term opportunities that can be presented by troughs and peaks. Services that operate in non-competitive environments usually have a simple queuing strategy in place. As far as competitive markets are concerned, the need is for a more proactive strategy that is market-oriented and is capable of managing the demand pattern.

Some of the most commonly used methods to manage demand are as follows:

- Stimulating demand when demand is not at its peak with the help of all the components of the marketing mix. It is usual to reduce prices at times of slack through numerous tactical forms (e.g., 'happy hours' in bars, off-peak train tickets, etc.). It is also possible to reformulate the product offering itself by bundling it with other products (e.g., business hotels offer activity breaks during weekends so that spare room capacity can be filled). Another option is to make the distribution of services more advantageous to customers during periods of slack in demand. For example, a restaurant may offer home delivery services at the quieter times of the season or day. In the case of a number of services, organizations concentrate on demand stimulation during periods of slack. In instances where the service is publicly consumed, it may be extremely significant to stimulate demand during slack periods as a means of

enhancing service quality. For example, in theatres, not only do more customers bring in more income, but they also make up the atmosphere of the theatre for the other customers who come for the ambience created by the active interaction between the spectators and the live performer.

- Likewise, suppression of demand takes place by reformulating the marketing mix when demand peaks. Firms directly (surcharge for travelling by train on Friday evenings) or indirectly (eliminating discount when demand peaks) increase prices. They frequently reduce the service promotion that is associated with peaks in demand. They also frequently simplify product offerings as well as their distribution during periods of peak.

Queuing and reservation systems

Where demand is more than supply and when the best management measures have been unable to match demand and supply, it is desirable to put in place some form of reservation or queuing system. A formal reservation or queuing system is preferred over a random free-for-all system due to the following reasons:

- An advance reservation system allows a company to identify future periods of peak in demand. As long as supply is reasonably elastic in the mid to short term period, it is possible to adjust supply so that demand is met, either through the production of extra capacity for meeting unexpected surges in demand, or through layoffs where it seems that demand might fall below the anticipated level. For example, advance reservations for a charter airline can assist it in scheduling its fleet for accommodating the maximum number of prospective passengers.
- Queuing and reservation systems permit the development of organization-customers relationships at an early stage. It is possible to form the relationship at the simplest level through the use of telephone enquiries for gaining some level of commitment from prospective customers, and for offering them services at mutually convenient terms that can assure both the supplier and the customer of achieving their goals. Alternatively, it may also be possible to develop the relationship from the moment a prospective customer enters a service outlet and joins the queue. For customers, the way they are handled in the queue forms a part of their assessment of total service quality.

  Numerous techniques can be employed for this:

  (a) Firms should maintain caution in making promises that have to do with queuing times. When customers are encouraged to expect short waiting times, but have to encounter long waiting hours, they perceive it as a failure of the service, which in turn, could affect their perception of the later phases of the service delivery. Warning customers of long delays is preferable as the actual relatively shorter delay causes them to perceive the service as going beyond what they had expected. This

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will lead them to step into the subsequent phases of the service process in a more affirmative frame of mind.

(b) If the customers perceive that some progress is being made, the waiting time will seem to pass more quickly. Customers are likely to become anxious if they are uncertain about the extent of time for which they have to wait and this can add to their perception of a longer delay. As such, they must perceive that the queue is progressing quickly.

(c) Attempts can be made during the waiting process to take customers' minds off their wait. This can be done, for instance, by providing a comfortable TV lounge for customers waiting for their car to be service.

(d) Where it is uncertain how long the delay can last, the firm must communicate regularly with the waiting customers that explain the reason for the delay and try to pacify them for the hardships they have to endure in waiting for their turn.

(e) A queue represents an opportunity for a firm to familiarize its customers and interest them in the other services that the firm offers.

(f) At times, a queue for a specific may be utilized by a firm for cross-selling other higher-value services. For instance, the personnel can persuade a prospective customer for an economy class ticket to purchase a first-class ticket instead of waiting for the availability of an economy seat.

Check Your Progress

4. What are the tactics used by companies for matching demand and supply?
5. State two benefits of using a queuing system.

2.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Service marketing includes both business to business (B2B) and business to consumer (B2C) services. Service marketing encompasses the marketing of services like professional services, car rental services, financial services, air travel services, telecommunication services and all types of hospitality services.
2. According to Fisk's model, the purchase process is broken up into three phases—pre-consumption, consumption and post-consumption.
3. Market analysis, internal corporate analysis, and competitive analysis are required to identify suitable market positioning and developing a strategy so that the firm can identify threats and opportunities.

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4. Following the arrival at a strategic decision regarding the level of demand, the company must develop tactics for matching demand and supply in every time period. This can be done in two parts:
   - o Management of the supply of the service to match the pattern of customer demand
   - o Management of the state of demand for evening out peaks
5. The benefits of queuing system are as follows:
   - o It allows a company to identify future periods of peak in demand.
   - o Queuing and reservation systems permit the development of organization-customers relationships at an early stage

2.6 SUMMARY

- Service marketing is one of the essential parts of marketing and can be segregated into two main fields of goods marketing – marketing of durables, fast moving consumer goods (FMCG) and services marketing. Service marketing includes both business to business (B2B) and business to consumer (B2C) services.
- In most industrialized economies, expenditure on services is growing due to advances in technology, growth in per capita income, deregulation and increased outsourcing.
- The important factors to be considered in understanding consumer behaviour in services are the people that are a part of the process of arriving at a buying decision, the time taken to arrive at the decision, the competitive services, the comparison that the person makes and the various sources from which information can be gathered to evaluate the competing service offers.
- Research should seek to establish the choice set (i.e. group of services from which a final decision is made) against which a company's service is being compared and on this basis, the marketing programme can be adapted in order to achieve competitive advantage against other members of the choice set.
- Normative rather than strictly quantitative explanations of the behaviours exhibited by the buyers are provided by the majority of buyer behaviour models. This is made worse by the lack of any guarantee regarding the validity of the assumptions in which the model initially had its basis.
- According to Fisk's model, the purchase process is broken up into three phases—pre-consumption, consumption and post-consumption. In the first phase are included the assortment of activities that usually occur prior to a purchase decision being made. . In the second phase, decisions are made

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by consumers regarding the best choice on the basis of prior experience. In the last stage, the focus is on evaluating the entire service encounter and determining whether the consumers are motivated to continue using the service in the future.

- There is a difference between individual consumer behaviour and organizational buyer behaviour. Organizational purchases involve more people and are made according to formalized routines.
- Market analysis, internal corporate analysis, and competitive analysis are required to identify suitable market positioning and developing a strategy so that the firm can identify threats and opportunities.
- Relationship development between organization and customers takes place in five stages: awareness, exploration, expansion, commitment and dissolution.
- The task of managing markets and ensuring a good fit between supply and demand is more complex for services than for goods. Many of the strategies for managing supply and demand that are open to goods manufacturers are not available to service producers.
- The inability to store services does not create problems as long as there is a certain degree of stability and predictability in the demand levels. The majority of services encounter significantly variant demand. Service organizations need to strategically view the level of demand that they seek to cater.
- Following the arrival at a strategic decision regarding the level of demand, the company must develop tactics for matching demand and supply in every time period. This can be done in two parts:
    - o Management of the supply of the service to match the pattern of customer demand
    - o Management of the state of demand for evening out peaks
- The output of a service organization is determined by the productive capacity of its equipment and personnel. The degree to which a firm is capable of adjusting its output for meeting variations in demand reflects the elasticity of these factor inputs.
- As far as competitive markets are concerned, the need is for a more proactive strategy that is market-oriented and is capable of managing the demand pattern. Some of the most commonly used methods to manage demand are to stimulate demand when demand is not at its peak with the help of all the components of the marketing mix and to suppress demand by reformulating the marketing mix when demand peaks.
- Where demand is more than supply and when the best management measures have been unable to match demand and supply, it is desirable to

put in place some form of reservation or queuing system. A formal reservation or queuing system is preferred over a random free-for-all system

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2.7 KEY WORDS

- **Influencers:** Influencer refers to a person with the ability to influence potential buyers of a product or service by promotion or recommendation.
- **Decision-makers:** Decision-makers are the people who make the final purchase decision in terms of executing the purchase themselves or instructing someone else to do the same.
- **Inhibitors:** Inhibitors are factors that prevent the individual from arriving at a purchase decision. Some of these factors are the accessibility of the service, its price as well as the terms and conditions of delivering the service.
- **Queuing:** It is a form of reservation system which is introduced when the demand is more than supply. This is done to meet unexpected surges in demand.

2.8 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the reasons behind increasing expenditure on services in industrialized economies?
2. What is the difference between consumer and organizational buyer behaviour?
3. Write a short note on relationship development between organization and customers.
4. What are the general strategies used by service firms to enhance supply management?
5. State the techniques used while effectuating a queuing system.

Long-Answer Questions

1. Discuss the strategies used by service organizations to develop relationships with customers.
2. Explain the strategies used for managing supply and demand in service business.
3. Describe some of the commonly used methods to manage demand in services.
4. Discuss the elements of the buyer behaviour model introduced by Howard and Seth.

2.9 FURTHER READINGS

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UNIT 3 SERVICE DESIGN

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Structure

3.0 INTRODUCTION

In this unit, you will learn about service design and its guiding principles. In recent years, service design has become an important component of the service business. Not only does service design consider the needs of the customers, but also considers inputs from the latter. There are three main components of the service system, namely, service operations system, service delivery system, and the service marketing system. The unit will also delve into the service marketing system and attempt to define the types of service layout. The topic of service process mapping will also be discussed.

3.1 OBJECTIVES

After going through this unit, you will be able:

- Discuss the guiding principles in service design
- Understand the types of service layouts
- Examine the concept of service mapping
- Discuss the factors to be considered in designing service process

3.2 GUIDING PRINCIPLES IN SERVICE DESIGN

Service design has turned out to be an important subject matter in design circles in recent years. However, the existence of service design can be traced to the early eighties, when the term was coined by Lynn Shostack.

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Before we focus on the guiding principles of service design, we need to understand what service design means. According to Nielsen Norman, service design is: The activity of planning and organizing a business's resources (people, props, and processes) in order to (1) directly improve the employee's experience, and (2) indirectly, the customer's experience. Shostack states, 'People confuse services with products and with good manners. But a service is not a physical object and cannot be possessed. When we buy the use of a hotel room, we take nothing away with us but the experience of the night's stay. When we fly, we are transported by an airplane but we don't own it. Although a consultant's product may appear as a bound report, what the consumer bought was mental capability and knowledge, not paper and ink. A service is not a servant; it need not be rendered by a person. Even when people are the chosen means of execution, they are only part of the process.' This attribute makes it reasonably tricky to design for services.

Irrespective of the definition of service design, there are some principles that hold true:

1. Service design is not about products but about the **connections between and across products and relationships in between them**. In service design, superiority is a measure of how fittingly the various parts of a service work in tandem.
2. **Service design is essentially multichannel**. Digital is a fundamental part but not the only one. Service design considers the experiences that take place over time, across channel, and hotspots.
3. **Service design is user centric** and not technology or enterprise driven. However, both of these play a pivotal role in delivering the service. They are required to chase the users, both the distribution channel and end users.
4. **Compassion, experimentation, collective thinking** and **partnership** are fundamental to service design. In applying service design we explore wider angles before zeroing on to a single idea.
5. **Service design is transformative**. Through a cautious assessment of in-house processes, it presents a roadmap for service uptake, continuing change and promoting cost savings.

General Principles of Service Design

The general principles of service design focuses on the designer's interest based on the requirements of all services. The general principles of service design are:

- Services should be designed on the basis of authentic knowledge of the intention of the service, its demand and the capability of the service supplier to distribute that service.

- Services need to be designed based on the needs of the customer and not the internal needs of the business.
- Services are required to be designed to deliver a cohesive and resourceful system instead of component-by-component that may result in poor service performance.
- Services should be focused on effectively creating value for consumers and efficiently delivering them.
- Service design should always take into account the input from the consumers of the service.
- A prototype of the service design should be prepared before developing it commercially.
- A combination of a business case and a model must be used to develop service design.
- Services need to be developed as a minimum viable service (MVS) and then installed. It can then be improved to add extra worth based on user/customer feedback.
- Services to be designed and delivered in alliance with all related stakeholders.

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Process Design Principles for Service Design

A great deal of service design is found in the design of processes and these principles support this:

- Actions failing to add value for the consumer need to be minimized or eliminated altogether.
- Fragmentation of work is least sought for unless a necessity. This facilitates single window responsibility and accountability thereby reducing delays, rework, etc. It promotes involvement, ownership and creativity.
- Processes should be very simple and it should focus on curtailing rules, controls, process steps and handovers. The control over the delivery of the process should be under the process owner.
- Customer needs should be reflected on the processes and multiple versions of a process should be presented and acceptable if consumers have diverse needs.
- Minimum variation in the process is expected.
- Process dependencies should be kept to a bare minimum.
- Learning on processes should be through training rather than following instructions.
- Focus should be on process continuity and breaks and delays must be avoided.

- Reviews, controls, and reconciliations of process must be reduced.
- Key Performance Indicators for processes will only focus on relevant issues.

Organizational Design Principles for Service Design

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People are the most important cog in service delivery system and some fundamental principles for business houses can assist them realize their full potential:

- To match the processes and the aptitude required, work groups should be structured.
- Plenty autonomy will be given to individual workers for making useful decisions.
- Workstations should be set up where work can be done with most utmost efficiency.

Information Design Principles for Service Design

Proper flow of information is the key to delivering high quality service.

- Data should be standardized within the organization and between the organization and its customers.
- Data must be easily transferable and reusable within self and among the associate organizations.

Technology Design Principles for Service Design

Technology design principles are used to maintain the delivery of service. They include:

- Technology should always be looked as service enabler rather than service driver.
- Technology needs to be pulled into a service design rather than pushed into it.
- Technology design should have flexibility and adaptability to match ever-changing customer requirements.

Service design principles act as a pillar for the development of services which deliver exquisite experiences to consumers.

3.3 SERVICE MARKETING SYSTEM

There are three main components of the service system, namely, service operations system, service delivery system, and the service marketing system.

The service operations system refers to backstage activities like staff training and stock replenishment, and the front stage aspects of the operation which is

experienced directly by the customer. The service delivery system, on the other hand, comprises the visible aspects of the service operating system, while also incorporating the exposure to other customers.

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The service marketing system comprises elements of the service experience which contributes to a customer's overall view about the organization. It is important to note that a number of these elements are difficult to control. An example of this is the conversation a customer might have regarding the service provided. However, the three components help in managing all the elements of the business.

3.4 TYPES OF SERVICE LAYOUTS

Service Layout is all about the physical environment where the service is delivered and where the firm and its clients interact. It is the physical environment where a service delivery can take place. A service layout is more about a 'built environment' or, more specifically, the 'man-made, physical surroundings as opposed to the natural or social environment'. A thoughtful layout and a good environment always have a powerful impact on the assessment, perception, and response of the customer. When a consumer visits a service site for a particular service or product, it is the layout or the surroundings that have a profound impact on the future course of action. The ambience actually persuades or discourages him from following a set course of action.

A service layout should be such that it strikes a balance between two primary objectives:

(i) Develop environment that invoke consumer pleasure and arousal and avoid ambiance that create submissiveness; and

(ii) A layout that facilitates operational ease and efficiency of the firm.

Three important aspects of Service Layout

Some of the important aspects of Service Layout have been discussed below:

1. *Spatial Layout and Functionality*: Spatial layout refers to the ways in which one arranges the furnishings, equipment and machinery, their shape and size and the spatial relationship which exists amongst them. Functionality is about the ability of those items to accomplish customer satisfaction. The issue of spatial layout and functionality is more relevant in self-service settings where the customers themselves handle the services. ATMs, Self-service restaurants, gasoline pumps are few examples. The importance of facility layout is particularly evident in retail settings, where store facilities considerably affect consumers' emotional responses. Layout accessibility, facility aesthetics, and seating comfort are all factors that impact clients' perceptions of quality in spectator sports and multiplexes.

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2. *Signs, Symbols, and Artifact*: The sign is one of the most explicit signals that communicate about the place to its users. These are prominently displayed on both exterior and interior of a place and generally act as communicators. Signs can be used as labels (name of company, name of department, and so on) for directional purposes (entrances, exits), and to communicate rules of behaviour (no smoking, children must be accompanied by an adult). Quality materials used in construction, interior design, artwork, display of certificates and photographs on walls, floor-coverings, and personal objects displayed in the layout area communicates symbolic meaning and creates an aesthetic impression.
3. *Ambient conditions*: Colour, noise, music, sound, lighting, etc. across a service point are included in ambient conditions. These are important factors as they positively affect the mindset and perception of a person. In some cases, we hear a soothing background score to relieve stress. Ambient condition has proved itself as an influential aspect of service layout.

Types of Service Layouts

Firms differ in terms of the audience who will be affected by the service layout, whether it is customers, employees or both groups. On the basis of the interaction between the customers and the employees in a service site and the type of prevailing service environment, service layouts are differentiated into three types. They are:

1. *Self-service environment*: In this environment, the customers serve themselves and do most of the activities. Involvement of the employees is minimal. ATMs, movie theatres, check-in counters at airports, golf courses are few examples of self-service environments where the layout is planned in such a way so as to focus on marketing goals like attracting the right market segment, providing pleasing services and creating desired service experience for the customer.
2. *Remote service*: This is an environment which offers very little or no customer involvement with the service layout. Telecommunications, financial consultants, editorials are few instances where services are delivered without the customer ever seeing the service facility. Here, the focus is on setting up a service layout that keeps the employees motivated, and facilitates productivity, teamwork, operational efficiency or other organizational goals that is required even in the absence of customers or direct interaction. An effective service layout in such a scenario motivates the employees to provide the best quality service, as is evident in the case of SAS, a data analytics and software company which was number one in Fortune Magazine's 'Best Place to Work In' in both 2010 and 2011 and consistently appeared in the top ten list till 2016. The company provides health care and child care service on site, a beauty salon, car cleaning services, and a state-of-the-art

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fitness centre for its 13,500 employees. Since, in remote service environment customers never visit the service facility, the entire layout can be planned out for the employees, which SAS did.

3. *Interpersonal services*: In this case, both the customers and the employees are present and interacting in the service facility. Hence, the layout should be designed to attract, satisfy, and facilitate the activities of both the parties. Examples like hotels, educational institutions, banks fall in this category. Emphasis must also be given to how the service layout affects the nature and quality of social interaction between the customers and employees. Service layout of cruise ships is a good example as the setting and ambiance has to be such that it supports the customers and employees and facilitates their interaction.

The case of Apple Stores, New York

Architects, graphic designers, product developers, merchandising people, and its late CEO Steve Jobs were all roped in to design the Apple Stores in New York's Soho district. They all came together to design the retail space that would both convey the company's philosophy and sell computers. It resulted in creating the ambiance of a museum with a clean, open and spacious store that displays only a few computers. A central glass staircase, white walls and a large skylight is used to create a modern feeling. The second floor of the store offers space to children to play with software and also houses a large conference room to demonstrate Apple products. Apple's 5th Avenue Store at New York City, its highest volume store, is a cube shaped store free of structural steel. It relies on a taut glass skin and glass beams to create a sense of free-floating structure that sits above the actual retail space.

3.5 SERVICE PROCESS MAPPING

Service mapping is a crucial dimension of the 7 Ps of marketing which are Product, Price, Place, Promotion, People, Process and Physical evidence. This process of mapping is known as the Process. In simple terms, it is workflow diagram to show an understanding of the sequential processes that occurs when a service is being delivered to a customer. Process is important to display consistency in quality in a service. Due to the intangible nature of service, processes have become an important step to ensure that the all standards are being met with.

The mapping of service processes allows the organization to determine the amount of resources that are being allocated. When a service delivery manager knows how the resources are being used, it helps him to allocate resources in the future. In this way, inefficiencies and non-value added services can also be recognized.

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Due to service mapping, service processes adhere to a proactive mode from an earlier reactive approach. The obstacles in service delivery can be recognized and the service delivery process can be improved.

The benefits of service mapping are given below:

- The workforce becomes focused on the customer's perspective of the service process.
- Service mapping ensures that service delivery process are consistent across all units.
- It increases cross-functional communication.
- It improves the start-to-finish project time.
- Service mapping can act as a training aid for new employees.
- It also recognizes inefficiencies and non-value added activities.
- The obstacles and bottlenecks in the service delivery process are identified.
- It helps the management to make structured improvements in the service delivery process.

3.6 FACTORS TO BE CONSIDERED IN DESIGNING SERVICE PROCESS

Since the services are intangible, there is a difficulty in describing them and it becomes a challenging task for the service originators. Lynn Shostack, author of a Marketing

Management column for *The American Banker* identified four risks inherent in designing services:

Over simplification: Shostack writes, 'To say that "portfolio management" means "buying and selling stocks" is like describing the space shuttle as "something that flies".' Many a times, the key points in the service process remains unnoticed or is overlooked in the designing phase, which will be identified only when the customers on a later date offer criticism.

Incompleteness: Customers can provide a clear picture of the services with which they have direct contact and are familiar to such service. Hence, the service designers will have to program the functioning services in such a way that they can be altered without much difficulty to accommodate the customers.

Subjectivity: People are influenced by their personal experiences and they can relate the same to services, irrespective of whether they are connected

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to such experiences or not. For instance, if you had a tough day at work, even your favorite food eaten the same day will not leave you contented.

Biased interpretation: When the users of services describe the services to the others, a prejudice is formed and in addition to that, it creates bias in the minds of the listeners with the use of words and their interpretation of the use of the words. For example, the perspective of a person for the terms 'well-mannered and receptive' may be different from what another perceives it to be.

Check Your Progress

1. What is service design?
2. List the informational design principles for service design.
3. What are the technological design principles for service design?
4. What is service layout?
5. List the examples of self-service environment.

3.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Service design is the activity of planning and organizing a business's resources (people, props, and processes) in order to (1) directly improve the employee's experience, and (2) indirectly, the customer's experience.
2. Proper flow of information is the key to delivering high quality service. The principles are:
   - Data should be standardized within the organization and between the organization and its customers.
   - Data must be easily transferable and reusable within self and among the associate organizations.
3. Technology design principles are used to maintain the delivery of service. They include:
   - Technology should always be looked as service enabler rather than service driver.
   - Technology needs to be pulled into a service design rather than pushed into it.
   - Technology design should have flexibility and adaptability to match ever-changing customer requirements.

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4. Service layout is all about the physical environment where the service is delivered and where the firm and its clients interact. It is the physical environment where a service delivery can take place. A service layout is more about a 'built environment' or, more specifically, the 'man-made, physical surroundings as opposed to the natural or social environment'.
5. ATMs, movie theatres, check-in counters at airports, golf courses are few examples of self-service environments.

3.8 SUMMARY

- According to Nielsen Norman, service design is: The activity of planning and organizing a business's resources (people, props, and processes) in order to (1) directly improve the employee's experience, and (2) indirectly, the customer's experience.
- Services should be designed on the basis of authentic knowledge of the intention of the service, its demand and the capability of the service supplier to distribute that service. Services need to be designed based on the needs of the customer and not the internal needs of the business.
- A great deal of service design is found in the design of processes. Processes should be very simple and it should focus on curtailing rules, controls, process steps and handovers. Customer needs should be reflected on the processes and multiple versions of a process should be presented and acceptable if consumers have diverse needs. People are the most important cog in service delivery system and therefore work groups should be structured to match the processes and the aptitude required.
- Proper flow of information is the key to delivering high quality service. Data should be standardized within the organization and between the organization and its customers. Data must be easily transferable and reusable within self and among the associate organizations.
- Technology design principles are used to maintain the delivery of service. Technology should always be looked as service enabler rather than service driver. It needs to be pulled into a service design rather than pushed into it. Technology design should have flexibility and adaptability to match ever-changing customer requirements.
- Service Layout is all about the physical environment where the service is delivered and where the firm and its clients interact. It is the physical environment where a service delivery can take place.
- Spatial layout and functionality, use of signs, symbols and artifact, and ambient conditions are some of the important aspects of Service Layout.

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- Service layout is of three types: Self-service environment, remote service, and inter-personal services.
- Some of the factors to be considered in designing service process are over-simplification, incompleteness, subjectivity, and biased interpretation.

3.9 KEY WORDS

- **Service design:** Service design is the activity of planning and organizing a business's resources (people, props, and processes) in order to (1) directly improve the employee's experience, and (2) indirectly, the customer's experience.
- **Service layout:** Service layout is all about the physical environment where the service is delivered and where the firm and its clients interact. It is the physical environment where a service delivery can take place.
- **Remote service:** This is an environment which offers very little or no customer involvement with the service layout. Telecommunications, financial consultants, editorials are some of the examples

3.10 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the general principles of service design?
2. Write a short note on the process design principles for service design.
3. List the fundamental organizational design principles for service design.
4. What are the objectives of a service layout?

Long-Answer Questions

1. Discuss the important aspects of service layout.
2. Describe the types of service layout.
3. Explain the important factors to be considered while designing service design process.

3.11 FURTHER READINGS

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BLOCK - II
SERVICE MARKETING MIX

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UNIT 4 MARKETING MIX FOR SERVICES

Structure

4.0 INTRODUCTION

In this unit, you will learn about the characteristics and elements of service marketing mix. Product, place, price, promotion, people, process and physical evidence are the seven elements an organization uses to communicate with its customers. Advertising is used as a tool to elicit the desired response from the target audience.

The unit will also discuss in detail physical surroundings and its impact on customers and employees. The element and types of physical evidence, namely peripheral and essential physical evidence will also be delved into.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the characteristics and elements of service marketing mix
- Discuss sales promotion
- Describe the types of physical evidence
- Explain the seven Ps of service marketing

4.2 CHARACTERISTICS OF SERVICE MARKETING MIX

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Quality of services is more difficult to determine than products because they come to customers in several different ways. It is the task of the provider to convey the qualities of his service very precisely and design the appropriate service–product mix. The basic service, like eating in a restaurant, is just one part of the entire service offering. The ambience, the music and the behaviour of the employees are other vital components of the service. A decision has to be made each time about the degree to which ancillary elements have to be included in the main service.

Representing services in promotional methods like advertising is extremely challenging due to its intangible and variable nature. Services need more creativity and focus to get the positioning plank depicted accurately. Service providers are in frequent touch with customers. A doctor has to be good at his primary task and he also has to be a good marketer, since his attitude and behaviour, besides his ability to cure, will determine his patients' opinion about the medical facility. The employees of service organization come in frequent contact with customers and they are important in promotion and brand building exercises of the company. The service provider has to be an expert in operations and marketing at the same time.

The same basic service like surgery can be provided in vastly different service facilities providing different levels of amenities and luxuries. Service offerings lend themselves to differentiation easily and the same basic service can be combined with other auxiliary services and priced differently. The service providers have huge price flexibility and charging the right price becomes a very important decision.

The same service can be delivered in various ways. With the proliferation of new technologies, the different ways that a service can be availed is only increasing. A customer can go to the bank and withdraw money, use the ATM to do the same job, use the phone, or engage in internet banking. Even medical services will see a revolution due to new channels of delivery becoming established. Even critically ill patients can stay at home while equipment attached to their bodies would transmit vital information about the functioning of their organs to doctors sitting in hospitals who can prescribe suitable remedies.

Marketing mix conveys the positioning of a service or a product. In cases of services all the 4Ps are very flexible, i.e., many number of combinations of the 4Ps are possible to arrive at a marketing mix. But the segmentation criteria have to be very well defined and the positioning has to be very sharp, because a customer is impacted instantly and very perceptibly as soon as he gets in contact with a service provider or enters a service facility. Service marketers face tremendous challenge in getting the marketing mix right to be able to convey their positioning plank because the marketing mix is flexible but the positioning has to be very pointed.

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4.2.1 Service Marketing Mix: 7Ps

You must be familiar with the 4Ps of the marketing mix, that is, product, place, price and promotion. These are the four key elements that an organization uses in order to communicate with its customers. The term mix implies that the four elements are interdependent and together they form the core variables of any marketing plan that an organization puts forth. In the case of service marketing mix, these four elements play a crucial role. However, the marketing mix for services has three additional Ps, that is, people, process and physical evidence. All the 7 Ps of service marketing mix have been discussed as follows:

1. **Product:** This P is concerned with the product or the actual essence of the service. It could be financial assistance, medical aid, a restaurant and so on.
2. **Price:** The pricing of the service should be determined after a thorough study of the market as well as the paying capacity of the target customer.
3. **Promotion:** Promotion of services is essential also because the product here is intangible and relies heavily on correct and effective communication with the customer.
4. **Place (distribution):** This P is concerned with the delivery channels or the distribution of the service being provided.
5. **People:** The right people need to be used for providing a particular service. The right skill set and the right attitude are essential for this element of marketing to achieve the desired objective.
6. **Process:** All the visible and behind-the-scenes systems that help bring the service to the customer comprise the sixth P of process.
7. **Physical environment:** The actual premises or surroundings where the service is delivered to the customer play a major role in the success rate of the service delivery.

Let us learn this in detail.

Product

Physical products can be inspected and tried before buying but pure services are intangible. A customer cannot go to a showroom to see a medical operation that he is considering. This means that customers of services suffer higher perceived risk in their decision-making process. They do not know whether they have purchased the right service until they have used it and in some cases like medical service and car service, they cannot be sure whether they have received the right service long after they have consumed the service. The three elements of the extended marketing mix — people, physical evidence and processes provide cues about the quality of the service to the customer, and are crucial in influencing the customer's perception of service quality.

Brand name of a service can also influence the perception of a service. It is said that service providers do not expend necessary resources and efforts in building

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strong brands. In situations where customers are unsure of the quality of their purchases, strong brands provide an assurance to customers that the company has a history of good quality. Customers spend lot of time, money, and effort in ascertaining the likely quality of service they propose to buy and the providers do the same in assuring the customers of high quality of their offering. Both parties would be greatly served if service providers build strong brands. Customers would be less unsure of the quality that they will get. Besides promoting its service, a provider should offer high quality of services consistently so that customers talk about it favourably. A strong service brand is built by a combination of advertising and positive word-of-mouth. Both are necessary. Positive word-of-mouth without being supplemented with advertising will create a strong local brand. Customers from distant locations would not be attracted to it. Advertising without being supplemented with positive word-of-mouth will create awareness but customers will still look for affirmations from customers who have actually used the service.

For some services, trial is possible. Some hotels invite key decision makers of social clubs to visit their hotels free of charge to sample the facilities and services. The hotels hope that they will recommend a visit to their members.

Promotion

The intangible elements of any service may be difficult to communicate. It may be difficult to represent courtesy, hard work and customer care in an advertisement. The answer is to use tangible cues that will help customers understand and judge the service. A hotel can show the building, swimming pool, friendly staff and happy customers. Testimonials from satisfied customers can be used to communicate service benefits. Personal selling can also be effective in services marketing because of the high perceived risk inherent in many service purchases. A salesperson can explain details of a personal pension plan can answer questions and provide reassurance.

Because of high perceived risk inherent in buying services, sales people should develop lists of satisfied customers to be used in reference selling. Sales people need to be trained to ask for referrals. Customers should be asked if they know of other organizations or people who might benefit from the service. The customer can then be used as an entry and point of reference when approaching and selling to the new prospect.

Word of mouth is critical to success because of the experimental and experiential nature of services. Talking to people who have visited a resort is more convincing than reading holiday brochures.

Promotion must acknowledge the dominant role of personal influence in the choice process and stimulate word of mouth communication. A company can follow the following approaches:

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- A company can persuade satisfied customers to inform others of their satisfaction. The company can identify customers who have been especially pleased with its service and maintain relationships with them by offering them special deals. The customers are subtly asked to recommend the services to people they know. The company can have schemes in which it rewards customers who recommend and introduce others to their service. But such schemes should be played down because prospective customers will be wary of such recommendations if it comes to their notice that companies pay for eliciting recommendations. In any case the rewards should just act as triggers. Customers should feel that the service is worth recommending. And not many customers would be willing to stake their reputation for paltry sums, i.e., it is unlikely that a customer will recommend an inappropriate service to his friend or relative.
- A company can develop materials that customers can pass on to others. Customers who are extremely satisfied with services of a particular provider recommend the provider to their acquaintances because they genuinely feel that the service provider is good and they feel that they will be helping out their friends by recommending a genuinely good service provider. When a company leaves information material with their most satisfied customers, it becomes convenient for customers to pass on this information to their friends. It is very convenient to send such information through e-mail.
- A company can target opinion leaders in its advertising campaign. Heavy users of a service are good prospects. Corporate clients of repute can also sway opinions in the provider's favour. Celebrities are useful in this context if they are not involved with too many endorsements.
- A service provider encourages potential customers to talk to current customers. Educational institutes find this exercise very useful. Prospective students seek out current students to find facts about the institute. They trust current students to give reliable information. When current students talk well about the institute, prospective students' inclination to join the institute increases. Opportunities have to be created for current and prospective students to meet. But the effectiveness of this exercise is based on the belief of the potential customers that current customers do not have any interest in projecting a false image of the institute. But when such exercises are doctored, they lose their credibility.

Communication should also be targeted at employees because of their importance in maintaining and creating service quality. Internal communication can define management expectation of staff, reinforce the need to delight the customer and explain the rewards that follow from giving excellent service. External

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communications that depict service quality also influence internal staff if they include employees and show how they take exceptional care of their customers. Care should be taken not to exaggerate promises in promotional material since this may build unachievable expectations among customers. Such exaggerated promises also demotivate employees and makes them cynical as they know that the company is not in a position to live up to its promises. It is very important that the employees like the way their company is projected to the outside world, so that they feel proud of being a part of it and strive to live up to the promises made in the advertisements.

Price

Price is a key marketing tool in services. As it is often difficult to evaluate a service before purchase, price may act as an indicator of perceived quality. Companies expect a management consultant to charge high fees, otherwise they cannot be good. Price is an important tool in controlling demand. Bars charge higher rates in the evenings when they expect lot of rush. They charge lower price during day-time expecting customers, who are lured by the lower prices. Less number of customers has to be turned away in the evening. Low prices can also attract new customers who cannot afford or do not want to pay the high prices charged in the evenings. The facility is more evenly utilized throughout the day. Matching demand and supply is critical in services because services cannot be stored. A less utilized facility at some part of the day or year means lost revenue which cannot be compensated. But the price differential has to be significant to be able to shift customers, as enjoyment of some services is closely related to the time at which it is consumed. The experience of watching a movie in a theatre on weekends is very different from watching it on a weekday. People would prefer going to a hill-station in summers than during any other part of the year.

A key segmentation variable with services is price sensitivity. Some customers may be willing to pay a much higher price than others. Time is often used to segment price sensitive and insensitive customers. Earlier, long-distance phone calls were cheaper during some parts of the day and more expensive during other parts of the day. Some customers may be willing to pay more to get the service early or whenever they want it. It is often debatable if a patient willing to pay more than the normal fees should be allowed access to a doctor before another patient who has been waiting for his turn. But it is slowly being accepted that customers who pay more can have faster access to the service. However, the discrimination has to be discreet and subtle, especially when both sets of customers are in the same place, as it often happens in entertainment parks, where two queues of guests move at different paces toward the swings. The guests who pay more are in the faster moving queue and have to wait for less time than those who pay less. It is often wise to design facilities and operations in a way that the two sets of customers are not in sight of each other.

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Five techniques are used while setting fee levels:

(i) **Offset**: A company charges low fees for the core service but charges higher prices for other add-on services. A restaurant may charge low price for food but will charge higher prices for drinks. Customers will eventually know the provider's tactics and those who are interested in having meals would visit; others will look elsewhere for drinks, may be to a place which follows the opposite practice. An entertainment park may charge low price for rides on swings but may charge high price for food.

(ii) **Inducement:** A company charges low fees to attract new customers or to help retain existing customers. Since price is a strong cue for quality in services; low price may make the customers believe that the quality of the service is not good.

(iii) **Divisionary:** A company charges low basic fees on selected services to develop the image of a provider which offers value for money. The services with low prices should be accessed more often by customers. The price of other services should not be very high as customers will then be able to see the price discrepancy between the services. The low-priced services give an image of being low-priced to the facility but the very high prices of other services will make the customers suspicious about the true nature of the service facility.

(iv) **Guarantee**: The company allows the customers to pay full fee only on achievement of agreed results. Most customers are generous enough to pay for the service that they have already consumed though they may not be fully satisfied with it. They will complain about the deficiencies in the service at the time of paying and will be assuaged with polite words. There is not much loss of revenue due to this. Even though most customers do not avail of the 'no-payment if not satisfied' option, they feel nice having the option and normally trust such providers to offer good service. Providers who give such guarantees make more efforts to provide fault-free services and their operations become better. They become more alert.

(v) **Predatory:** The company charges low prices to undercut competition's fees to remove them from the market. They plan to charge higher fees when competitors quit. But the events following a player's price cut do not normally follow this script. Competitors too reduce their price and a few even undercut the initiator. The result is low profits for every player in the industry.

Place

Distribution channels for services are more direct. There is no storage of services. Production and consumption is simultaneous and direct contact between customer

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and service provider is essential for most services. Growth for many service companies means opening new facilities in new locations, due to simultaneous production and consumption. The evaluation of locations is a critical skill for such services. Expansion often means a multi-point strategy because the whole setup for service production and marketing has to replicated. Many service providers have been successful due to their ability to choose profitable new sites and replicating their operations at the new sites.

New technologies permit service companies to provide services without customers coming to their facility. Information and financial services are leading this revolution. A customer can carry out transactions with a bank through ATMs, Internet, or the phone. Information products can be widely distributed through Internet. But there are many other services where contact between the provider and the customer is still essential. But service companies should be looking for an alternative to personal contact with customers for at least a part of the service. Should education be provided solely through teacher-student interaction in a classroom or can at least a few of these sessions be substituted by a recorded lecture? Should a patient visit a doctor each time he feels unwell? Or can he have a monitoring system at his house which can transmit information about his body's functioning to the hospital, from where a doctor will prescribe medicines over the phone? It is not being suggested that all this is possible. But service companies should be experimenting with various alternatives to deliver services. Personal contact between a service provider and a customer is costly, cumbersome, and full of inter-personal complications. If it can be avoided without sacrificing customer satisfaction, it should be.

People

Service quality is inseparable from quality of service providers. The company has to set standards to improve quality of service provided by employees and monitor their performance. Training is crucial so that employees understand the appropriate norms of behaviour. Service providers train their staff to identify and categorise different personality types of customers and to modify behaviour accordingly. Staff members need to know how much discretion they have to talk informally to customers and control their own behaviour so that they are not intrusive, noisy or immature. They need to adopt a customer-first attitude rather than putting their own convenience and enjoyment before that of their customers.

Employees of service organizations have to be adept in multiple roles. They have to be good in their primary task and they have to be good in interpersonal skills. They also should empathise with the service requirements and moods of the customer, and modify their service and behaviour accordingly. A service professional has to have the combined skills of an operations man, a marketer, and a human resource manager. It is not easy to find employees with such diverse skills.

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The company has to examine the role played by customers in service environment and eliminate harmful interactions. The enjoyment of a restaurant meal or air travel will depend upon actions of other customers as well. The service facility's marketing mix should be such that it attracts customers desiring similar benefits from the provider. The target market has to be very homogeneous and the positioning very precise.

Physical Evidence

Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service. Customers look for clues to have an idea about the likely quality of a service by inspecting the tangible evidence. Prospective customers may gauge through a restaurant window to check the appearance of the waiters, the décor and the furnishings. The layout of a service operation can be a compromise between operational need for efficiency and marketing desire for effectively serving the customer.

Customers do not know what is in store for them when they decide to consume a service as they cannot examine it before using it. The whole facility is important to the customer as a source for cues by which he will try to gauge the quality of the service he is going to consume. Service providers should research the concerns of the customer regarding the service and also find out what the customer will be searching for. The service provider should strengthen those cues.

Process

These are the procedures, mechanisms and flow of activities by which a service is delivered to customers. Self service cafeteria is very different from a restaurant. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered. Since requirements of customers vary widely, processes cannot be standardized. But if a process is allowed too much flexibility, the efficiency of the facility goes down. Therefore, customer requirements should not be allowed to vary widely. Through targeting smaller segments of customers, variations in their requirements can be controlled.

The process is important because in some services they are visible to customers. Sometimes the effectiveness of a process can be compromised in the effort to make it look good to the customer. Some patients feel good when they are extensively examined by the doctor though it may not be necessary. Some processes in personal grooming and hair care saloons are not really required but service professionals have to carry them out because customers have come to expect them. Classroom lectures are largely ineffective but students will feel that they have not been taught at all if such lectures were not held. The idea is that customers have to be educated about the need or irrelevance of certain processes. A process should be employed only when it is required to provide a service and not because customers have come to expect it.

4.3 SALES PROMOTION

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Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer. The promise must be persuasive, unique and relevant to the consumer. It is extremely important to define the target audience with clarity and precision. The advertisement must be intended only for the target audience, and not for others, even if other customers in the periphery are interested in the offering. Else, the organization can feel tempted to reformulate its advertisements for customers who are not a part of the target audience, thus losing focus. A company that wants to focus on the youth audience may find takers for its products among other customers who are older. The advertisement cannot be reformulated to include these older consumers, even though they can be an attractive revenue making proposition. The mid-path would not be attractive to the intended target audience, the youth. Once the target audience has been identified, it needs to be understood better. Buyer motives and choice criteria need to be analysed.

Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communication like publicity, sponsorship, and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, and sponsorship. The real issue is how a company can use communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Often, a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. Therefore, it becomes important to understand other methods of marketing communication besides advertising.

The task of communication is not to get one's ideas across to the other party. The real purpose of communication is to elicit the desired response from the target audience. Eloquence, sophistication and suave demeanour are pleasing to the communicator himself, but serve absolutely no purpose in changing the attitudes and the behaviour of the target audience.

The target audience looks for conviction in the communicator. The target audience feels that if the communicator himself does not believe in the idea, he has no right to preach. The intent of the communicator is more important to the audience. The communicator should be focused on the interests of the target audience. Howsoever shoddily made an advertisement may be, or howsoever clumsy may a speaker be, the audience will sit up and take note when they hear their interests

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being discussed. It is what an advertisement or a speaker says that matters to the audience and not really how he says it. Especially in situations where one individual talks to another individual or a group, effectiveness of communication is directly dependent on the intent, knowledge and conviction of the communicator. The most reticent of men became verbose when they are knowledgeable and convinced about an idea.

The world of communication has for long been concentrating on polishing the medium of communications, like speech and advertisement, and somewhere down the line ignored the content that the message was supposed to carry. The audience too has been impressed with the slickness of the ad and the eloquence of the speaker, but the message never really registered in his mind. The purpose of communication is to elicit the desired response from the target audience.

Check Your Progress

1. What are the 7Ps of service marketing mix?
2. What is sales promotion?

4.4 PHYSICAL EVIDENCE

Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service. Customers look for cues to have an idea about the likely quality of a service by inspecting the tangible evidence. Prospective customers may peep through a restaurant window to check the appearance of the waiters, the décor and the furnishings. The layout of a service operation has to balance the operational need for efficiency and marketing desire for effectively serving the customer.

Servuction model

The Servuction model covers the visible and invisible factors that influence a customer's service experience. Visible factors are those which the customer can see. These are of three categories:

- **Inanimate objects:** These are the objects that make up the environment, such as the furniture, the telephone, flooring, lighting and the music (if applicable).
- **Service personnel:** These include the customer care representatives or employees of the organization that is providing the service as well as the other staff, such as the receptionist, or an attendant in the case of a hospital.
- **Other customers:** The customer will encounter other customers who have come to avail of the same service or similar services provided by the

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organization. The invisible factors include the parent organization and its various processes, regulations and policies. These influence the customer's experience in great measure but are not obvious to the customer. For example, when a customer goes to a bank, the number of forms to be completed or the number and type of documents to be provided will be based on the organization's policies and other government regulations that the customer will not be aware of. The key to understanding the Servuction model is that the customer is an integral part of the service process and cannot be isolated from it. Regardless of whether the customer is involved directly in a particular part of the service delivery process or not, the customer impacts it undeniably.

Servuction also known as industrialized production of service; it reduces errors to nil from line services. This is most effective on the first and second line of the back office. As has been stated, servuction model demonstrates how consumers are an integral part of the service process. In addition, it is the task of managers to understand the interactive nature of services and customer involvement in the production process. Servuction uses the complaint-question strategy in order to address customer grievances. The services marketing triangle includes the following domains:

1. **External marketing:** Popularly describes as setting the promise*,* this domain is concerned with direct interaction with the end users.
2. **Internal marketing:** Popularly known as enabling the promise, this domain is concerned with interacting with employees.
3. **Interactive marketing:** Also known as the moment of truth, this domain is concerned with the delivery of products or service to customers and front office employees.

Case Study

Daimler-Chrysler: Service should Complement the Product

Daimler-Chrysler was the first luxury car maker to enter the Indian market, with its most popular car model, Mercedes-Benz. Clearly, they have always had an image to maintain, and now more so, with other brands like BMW and Audi acting as the competition.

The Mercedes-Benz car models have received praise and positive reviews from customers and critics alike. However, Daimler-Chrysler realizes the importance of complementing the superior technology and luxury of the car with the service model that they employ in their showrooms and workshops.

For India and Mercedes-Benz specifically, Daimler-Chrysler has installed and enforced the Mercedes-Benz Retail Operating System across the country. Under the model, all Mercedes-Benz dealerships follow standardized retail

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operating procedures that ensure high standards of service to their customers and visitors. Besides the retail procedures, a wide range of company policies, regarding important issues like employee training, facility interiors and procedure of service facilities have been standardized by the company. Standardizing procedures for all these aspects ensures that all Mercedes dealerships operate at the same service level and strive towards a unified goal.

Service standardization includes standardization of the visible, tangible, factors, such as décor, furniture, wall colour and so on. Standardization of intangible factors includes the customer service personnel, agents and other service providers. The elegance that the general public associates with a Mercedes car should reflect in the service provided by its personnel. In keeping with this standard, service personnel should go through a long and rigorous training cycle after joining the company. Since they represent the company, their behaviour and service standard should match with the image of the company. The goal that Mercedes service employees are supposed to meet each time is 'trouble-free driving enjoyment'.

When all the services provided by the dealer at a Mercedes-Benz showroom meet or exceed the expectations of a customer, he or she will perceive the service experience as a memorable one. Therefore, it is essential for Daimler-Chrysler to ensure that all dealers conform to the high standards required in the premium car segment to meet the customer needs. This will also lead to the satisfied customer recommending the Mercedes service to another customer.

Impact of Physical Surrounding on Customers and Employees

Organizations often recognize the effect of atmospheric or physical design on customers and employees. Managers frequently plan, change and restructure an organization's physical surroundings, but they fail to understand the impact of any change in design on the ultimate users. The capability of the physical surrounding to influence the habit of the customer and create an image is apparent in the services sector such as hotels, banks, retail stores and hospitals. This is a direct impact of the customer's perception of the service provider and the actual place where the service is provided. This is because the place where the service is produced cannot be hidden. Even before availing the service, a customer looks for cues about the firm's capabilities and quality. Physical environment provides rich evidence, which influences the customer's views. In service organization, the same evidences impact the perception of the employees too. Physical setting can influence employees' productivity and increases satisfaction and motivation. Services are purchased and consumed simultaneously, and typically require direct human contact, as a result of which customers and employees come in direct contact and interact in the organization's physical facility.

It is important to understand the process by which customers evaluate the total service offering. Customers initially assess the core service for its ability to

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satisfy their substantive needs for a service such as need for sense of control, status, which are translated into a number of service attributes. These attributes may be security of the customer and his property, consistency, attitude, completeness or extent of service range, environment, availability and timing i.e. length of time required for, and pace of performance of the service. Service providers compete by producing service offerings that contain a permutation of these attributes that meets customers' secondary needs better than their competitors.

According to Teboul, the feature that lies at the core of service is the interface between the producer and the consumer. A service is characterized by its simultaneous production and consumption. This entails the physical presence of the customer at the time of production or delivery of the service. Based on the nature of this interface, a customer may assume various roles, viz, that of being a co-producer, a contributor to service quality and even that of a competitor.

(a) Customers as co-producers: The valuable inputs by the customers not only influence the quality of the service produced but also affect the overall generation of output. For instance, in an IT consulting firm, if the clients are articulate about their problems, cooperate with the service providers by furnishing timely information and clearly state what they desire, it takes less time to attend to their problems and fix them.

It not only ensures better quality of the service but also reduces the time lost in waiting for information or redoing a service, thereby increasing the overall productivity. While the role of customers in the production of service does increase the quality and quantity generation, it also poses several questions regarding their involvement.

Organizations raise concerns over the degree of uncertainty that customers bring to the production process, and hence suggest that their role be limited to the delivery process. The factors like the timing of the customers' demands, the unpredictability of their attitudes, moods and actions bring certain level of uncertainty to the production process. Hence, some firms prefer to perform the part of the production process that does not have anything to do with the customers, away from them. The less direct contact with the customers will imply less scope for uncertainty in the production process.

However, the other view that counters this belief states that customers must be seen as 'partial employees'. Their participation in the production service must be taken as an opportunity to maximize their contribution to the overall creation of service. Virgin airlines for example cater to different flying experiences for different markets. In the case of students or backpackers, a no-frills flight is emphasized. In the

case of business travellers, regularity of flights are stressed and lastly for tourists, a combination of in-flight and post-flight services would be of paramount importance.

(b) **Customers as contributors to service quality and satisfaction:** Another important role that the customers play in the production process is to contribute to their own satisfaction with the quality of the service produced. The increased productivity of a service firm is not really the customers' foremost concern. Their participation must lead to the fulfillment of their own needs. In certain services like healthcare, personal fitness, education, etc, an effective participation on the part of customers leads to the realization of their own needs.

Researches show that the customers' satisfaction with the quality of the service increases with their level of participation. Customers contribute to the quality of the service delivery by taking on the role of active participant. They ask questions, and notify the service providers in case of a complaint, thereby taking responsibility of their own satisfaction with the service. In a healthcare service, the patient communicates his or her medical problems with the doctor, complies with the doctor's prescription and shares his or her inputs on any improvement.

(c) **Customers as competitors:** If customers can be viewed as partial employees, in the sense that they can partially perform the service for themselves, then they may also be seen as potential competitors. In the role of competitors, customers are believed to be capable of performing the entire service for themselves, hence doing away with the provider altogether. Thus, customers have the option of internal exchange (producing a service internally for themselves) or external exchange (outsourcing it to a service firm). For example, they may decide to produce services like childcare, car maintenance, etc., internally or contract externally. Thus, customers can assume roles of not only productive resources and co-producers of quality but also as potential competitors to the service firms, cutting into their share of service process.

Crafting the service environment

Crafting the service environment means shaping the quality of service provided by the organization to the customer.It can be explained by the below-mentioned points:

1. Crafting the experience of the consumer and assessing their behaviour basically takes place through three medium:

   (a) Message- Creating medium where communication takes place in order to see the consumer reaction towards the services.

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   (b) Attention- Creating medium where medium is created to attract the attention of the consumer from target segment.
   (c) The effect- Creating medium where the effect is created by the use of colour, texture, sounds, designing, using different features, etc.
2. The image is designed to support positioning and the brand image is strongly used so that it will be easier to attract the target market.
3. Value proposition is something that describes the expected value of the product.
4. Productivity is augmented.
5. Service encounter is simplified.

Customer involvement and uncertainty

While customer involvement complements the production process, it, at the same time, also poses problems in service management in terms of the level of uncertainty it brings into the process. The key hindrance to their successful management is the uncertainty about the expectations of the customer. Customers are often seen as the source of disruption in the routines, by not complying with the procedural requirements and making unreasonable demands. Thus in all three stages of service process—pre-purchase, during the service delivery and post-sales—customers remain a source of uncertainty, in terms of the quality of the input they provide, and their responses during and after the delivery of the service. The key to successful management lies in managing customer behaviour in a way that is acceptable to both.

Management of customer-related uncertainty

For effective management of customer-related uncertainty, it is important to work out what the customer expects from the service. The levels of customer expectations may be as follows:

(a) **Desired:** This is the level of service quality that customers feel should definitely be delivered to them.
(b) **Adequate:** This is the lowest level of service acceptable.
(c) **Predicted:** This is the level of service, which the customer believes will be delivered to him/her by the company.
(d) **Tolerance level:** The extent to which the customers are open to variations in the nature and manner of service delivery.

Customers generally have a set criterion for evaluating the quality of a service. When you visit a beauty salon to get a pedicure or manicure done, you will not judge the quality of the service merely by the appearance of your hand and feet

after the session but also by the whole experience, that is, the way the service was delivered to you, the way the manicure/pedicure was done.

4.4.1 Types of Evidence

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The growth of service sector is primarily attributed to Information technology (rise of internet), Innovation and social trends. As defined by Philip Kotler, there are four Ps of marketing product, price, place, promotion and three extended p's of service marketing. Those are physical evidence, process and people.

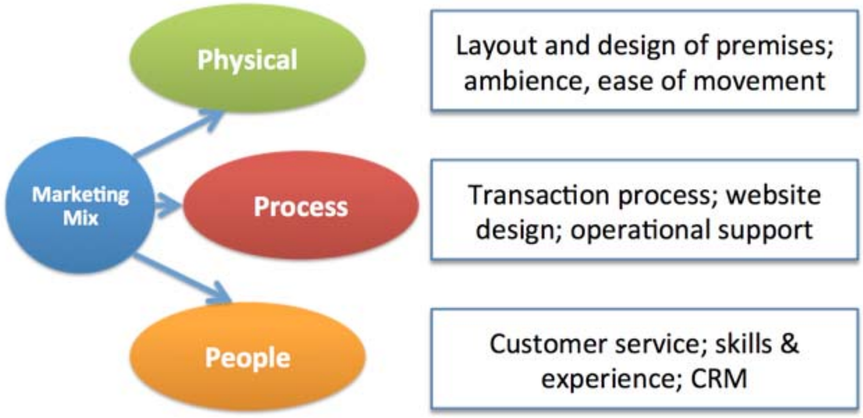


Fig. 4.1 *Four Ps of Marketing Product*

As shown in the above figure, physical evidence is about layout of services delivered, design of the premises, ambience and ease of movement.

In case of services, customer experience is the new competitive battlefield to stay ahead in competition. The physical environment leverage customers' experience during the service encounter leading to the customer satisfaction. In case of services such as hotels, restaurants, cafes, malls, theme parks, and banks, physical evidence might even be a key driver to leverage customer satisfaction. It also helps to make a great impression and leaving long-lasting memories. Thus, for the service provider companies, physical evidence is significant element of marketing-mix strategy and overall value proposition delivered to the customer.

Since services are inseparable and intangible in nature, before or while making purchase decision, customers highly rely on tangible cues or physical evidence for assessing the services. With physical evidence, customer attempt to evaluate about the service provider's capabilities and the quality of service offered by them so that careful design of all tangible elements may enhance perceived value of the market offering. Since services can't be seen or touched**, t**hey sometimes carry a risk of posy-cognitive dissonance because of this (buyer remorse).

For example, if someone making a decision of big financial investment in particular company, what can a company do to put the buyer at ease? In such

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cases, physical evidence is a way of communicating customer value and expectations to the customer.

Few authors have made an attempt to define physical evidence:

As stated by Zeithaml & Bitner, physical evidence is 'The environment in which the service is being delivered and in which the firm and the customer interact, and any tangible commodities that facilitate performance or communication of the service.'

There are three major elements of Physical evidence: facility exterior, facility interior, and other tangibles. Facility exterior and interior are a part of servicescape, where the services are actually performed and delivered to the consumer.

Servicescape	***Other tangibles***
Facility exterior	Business cards
Exterior Design	Stationery
Signage	Billing statements
Parking	Reports
Landscape	Employee dress
Surrounding environment	Uniforms, Brochures
Facility Interior	
Interior design	
Equipment	
Signage	
Layout	
Air quality/temperature	

Fig 4.2 *Elements of Physical Evidence*

1. **The facility exterior:** Facility exterior is essential to enhance the customer appeal, safety and gain competitive advantage. It includes the surrounding environment, landscape, parking facilities, waiting areas, pathways, the firm's entrance, layout and signage. While taking decision regarding location of the service company, especially with high- customer contact services, it is crucial to consider few elements like safety, accessibility, visibility and compatibility of the service site and other competitive offering in the market environment.
2. **The facility interior**: Attributes of facility interior are signage, interior design, equipment and other devices essential for service delivery. Theses facility interiors are complemented by ambient conditions like appropriate music, scents, controlled temperature, and colours.

   Among the above mentioned elements, some are visible to customers and plays a crucial role in the service delivery process, while other non-visible element plays an important role in creating certain mood and atmosphere of the service outlet.

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3. **Other tangible elements**: Apart from facility interior and exterior, there are few other tangible elements which include billing statements, stationery, business cards, personnel uniforms, promotional material. These elements also play an important role in presenting visual identifications of a company.

   While availing services, customer perceive all service elements holistically; hence it is important to ensure that service elements are carefully designed and integrated to create a brand image and deliver a unique customer experience.

   Examples of physical evidence across various service industries are mentioned below:

Service	**Physical Evidence**	**Other tangibles**
Hospital	Building exterior Parking Signage Waiting area Admission office Patient care room Medical equipment's Recovery rooms	Staff Uniforms Prescription Test reports Stationery Billing statements
Insurance	Not applicable	Policy Document Periodic Updates Company/Policy brochures Letters/Cards
Hotel	Parking area, Hotel Exterior Interior (Dining areas)	Food Crockery Waiter Uniform
Airline	Airline gate area Airplane exterior Airplane interior (Décor, seats, seat covers, Air quality)	Air tickets/ Boarding pass Food Cabin crew, ground staff and Pilot uniform
Education - University	University Building Parking Admission area	Books, Power Point Projector Computers

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To conclude the layout of the service outlet, atmosphere and aesthetics constitute physical environment. A well-designed layout, maintenance of appropriate lighting, controlled temperature, music, scent, visuals, pleasant and attractive ambiance of the service outlet ensure that customers enjoy their service encounter.

Placing signboards where needed and displaying the chart of service charges helps customers to make service choice decision.

Physical evidence can be also categorized into two types:

(a) Peripheral

(b) Essential

Peripheral evidence:

It is part of the purchase of a service; however it has a very little or no independent value.

Examples:

- A bank cheque book or passbook is of no value unless backed by the funds transfer and storage service it represents.
- A movie ticket and travel ticket are the peripheral evidence.
- A hotel provides welcome gifts, directories, pens, notepads, soap, dental kit, etc.

The important benefits offered by peripheral evidence are brand building, customer engagement, differentiation from competitors, increased credibility of the service provider. They often provide set of complementary items to the essential core service sought by customers.

Essential evidence:

Essential physical evidence is provided by service companies with those tangibles, without which the service cannot be delivered to the end customer.

Unlike peripheral evidence, essential evidence cannot be possessed by the customer. However, essential evidence can be important in its influence on service purchase decision

Examples:

- Overall appearance and layout of a hotel
- The ‘wow feel’ of room in hotel
- Ambience of a bank branch; Hygiene, cleanliness maintained in hospitals
- The type of aircraft used by an airline

These are all examples of essential physical evidence.

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Check Your Progress

3. Define external marketing.
4. What is interactive marketing?
5. What are the elements of physical evidence?
6. List the types of physical evidence.

4.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The service marketing mix consists of the seven Ps i.e. product, pricing, place, promotion, people, process and physical evidence.
2. Sales promotion is a medium of information and persuasion used by organizations to convey their message to the customers.
3. External marketing is popularly described as setting the promise; this domain of service marketing is concerned with direct interaction with the end users.
4. Also known as the moment of truth, this interactive marketing of service marketing is concerned with the delivery of products or service to customers and front office employees
5. There are three major elements of physical evidence: facility exterior, facility interior, and other tangibles.
6. Physical evidence can be also categorized into two types: peripheral and essential.

4.6 SUMMARY

- Product, place, price and promotion are the four key elements that an organization uses in order to communicate with its customers. In the case of service marketing mix, these four elements play a crucial role. However, the marketing mix for services has three additional Ps, that is, people, process and physical evidence.
- Physical products can be inspected and tried before buying but pure services are intangible. Customers do not know whether they have purchased the right service until they have used it and in some cases like medical service and car service, they cannot be sure whether they have received the right service long after they have consumed the service.
- Word of mouth is critical to success because of the experimental and experiential nature of services. Promotion must acknowledge the dominant

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role of personal influence in the choice process and stimulate word of mouth communication.

- A company can persuade satisfied customers to inform others of their satisfaction. A company can develop materials that customers can pass on to others. A company can target opinion leaders in its advertising campaign. A service provider can encourage potential customers to talk to current customers.
- Price is a key marketing tool in services. Price is an important tool in controlling demand. A key segmentation variable with services is price sensitivity. Some customers may be willing to pay a much higher price than others.
- Distribution channels for services are more direct. Production and consumption is simultaneous and direct contact between customer and service provider is essential for most services. New technologies permit service companies to provide services without customers coming to their facility.
- Service quality is inseparable from quality of service providers. Service providers train their staff to identify and categorise different personality types of customers and to modify behaviour accordingly
- Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service.
- Process is the procedures, mechanisms and flow of activities by which a service is delivered to customers. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered.
- Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer.
- The servuction model covers the visible and invisible factors that influence a customer's service experience. Visible factors are those which the customer can see. These are inanimate objects, service personnel, and other customers who have come to avail the same service or similar services provided by the organization.
- Organizations often recognize the effect of atmospheric or physical design on customers and employees. The capability of the physical surrounding to influence the habit of the customer and create an image is apparent in the services sector such as hotels, banks, retail stores and hospitals.

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- Crafting the service environment means shaping the quality of service provided by the organization to the customer.
- There are three major elements of Physical evidence: facility exterior, facility interior, and other tangibles. Physical evidence can be also categorized into two types: Peripheral and Essential.
- Peripheral evidence is part of the purchase of a service; however it has a very little or no independent value. Essential physical evidence is provided by service companies with those tangibles, without which the service cannot be delivered to the end customer.

4.7 KEY WORDS

- **Service marketing mix:** The service marketing mix is a combination of the different elements that companies use to communicate their organizational and brand message to customers. The mix consists of the seven Ps i.e. Product, Pricing, Place, Promotion, People, Process and Physical Evidence.
- **Promotion:** Promotion refers to any type of marketing communication which is used to inform or persuade a certain audience of the relative merits of a product or service.
- **Process:** These are the procedures, mechanisms and flow of activities by which a service is delivered to customers.
- **Physical evidence:** It refers to the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service.

4.8 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are some of the approaches followed for the promotion of services?
2. What are the five techniques used while pricing a service?
3. What is the Servuction Model?
4. What are the different levels of customer expectations?

Long-Answer Questions

1. Describe in detail the elements of service marketing mix.
2. Discuss the significance of sales promotion in service business.
3. Elaborate on the impact of physical surrounding on customers and employees.

4.9 FURTHER READINGS

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UNIT 5 SERVICE PRODUCT

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Structure

5.0 INTRODUCTION

In this unit, you will learn about the concept of customer benefit. In the changing marketing environment, it is unlikely that the customer needs will remain constant. This unit will provide an insight into customer orientation, while also emphasising the service concept. Consumer's perception of a service product also depends on the quality of the service.

An understanding into the various gaps that occur during the service process will help us understand the approaches that can be taken to close down those gaps.

5.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand customer benefit concept
- Discuss service levels and service offer
- Describe the product planning and development process
- Analyse service quality and management

5.2 MEANING: CUSTOMER BENEFIT CONCEPT

It is important to understand the process by which customers evaluate the total service offering. Customers initially assess the core service for its ability to satisfy their substantive needs. These attributes may be security of the customer and his

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property, consistency, attitude, completeness or extent of service range, environment, availability and timing i.e. length of time required, and pace of performance of the service. Service providers compete by producing service offerings that contain a permutation of these attributes that meets customers' secondary needs better than their competitors. Faced with array of attributes, understanding of the processes by which customers evaluate each bundle of attributes is required. Judgements can be made in three ways:

- A consumer may make a judgement based on an overpowering attribute which is of greater importance in a given situation.
- Judgement may be made on the basis of minimum levels of certain attributes, but final judgement is based on existence of a single specific attribute.
- The consumer may decide upon alternatives using a weighted average of attributes.

But customers are often not aware of what their needs are. In some respects, the service product is an idea and as such the need for a service is often unrecognized by the buyer until he or she becomes aware of its availability. Even if consumers are aware of their needs, they have difficulty in expressing their desires to service providers. Customer needs are unlikely to remain constant as individual customers and their marketing environment change. Customer orientation is being redefined as the customer benefit concept, according to which a service offering cannot be defined without the consumer benefit concept being considered.

5.3 CORE SERVICE LEVEL – THE SERVICE OFFER – PRODUCT PLANNING AND DEVELOPMENT - QUALITY MANAGEMENT

The 'Product' is a tricky element in case of services as it is essentially intangible. Hence, marketers need to identify and select key features of the service in relation to the benefits sought by the customers. In the case of service marketing, even the product element is dependent on the human influence and subjectivity, meaning how the service product is perceived also depends on how it is delivered.

5.3.1 Service Offer

Tangible goods offerings as well as intangible service offerings are both used to define the term 'product'. In other words, a product is a combination of tangible and intangible attributes that is inclusive of functional, social and psychological utilities and benefits. A product can be an idea, a service, a good, or any combination of these three. Four categories of product offers are (i) Pure tangibles (ii) Tangibles with accompanying services (iii) Major services with accompanying minor goods (iv) Pure services.

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Essentially, most products are a combination of goods and services. The service provision is often appended by support goods that offer the tangible aspects. Moreover, facilitating goods are those which must exist for the service to be provided in the first place, a car for hire service can be taken as example. Customers, often purchase not just a product but the benefits that come with the product.

Service concept comprises three elements:

(i) Physical items: Any tangible elements which are the facilitating or support goods (food, drink served in restaurant)

(ii) There are sensual benefits, those that can be defined by one or more of the five senses (Taste, aroma).

(iii) The psychological benefits of a service purchase bundle: These are benefits which cannot be clearly defined and are determined by the customer subjectively.

Service offers can be distinguished from goods offers by their inseparability. The fact that a service cannot be separated from the person who provides it, nor from the place where it is provided, results in services being consumed as soon as they are produced and this means a high degree of buyer/supplier interaction.

Services cannot be resold and value can be added only at one level. Organization/client interface and user participation are critical elements influencing the consumer's perception of a service product.

There are three different levels of an individual product:

(i) Core product level: This is an underlying need which a product satisfies (Transport)

(ii) Tangible produce level: The core product is made available to consumers in some tangible form, expressed in terms of products features, styling.

(iii) The third level is the augmented product. Besides the tangible product, additional services and benefits are included to satisfy additional needs of consumers and/or to differentiate a product from its competitors. Many of these additional features are services.

In contrast to what consumers believe, a product is a lot more than the physical item that is bought in the market. In order to understand this better, we may consider it as three different products – the core product, the actual product and the augmented product. Also known as the three levels of a product, the core product is different from the tangible product as it cannot be touched. This is so because the core product is the outcome or the benefit of the product that gives it its value. As an example, the benefit of owning a car is not just convenience but speed as well. The actual product is by and large the tangible, physical product that one can touch and see. Taking the example of a car, one can first take it for a

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test drive before buying. Finally, the augmented product is the non-physical part of the product which comprises added value. As a result for a car, the augmented product will be the warranty. It may also be perceived to be the ways in which the core or the actual product gets tailored to the customer's needs. The features of augmented product can be changed to fit the individual benefits of customers.

5.3.2 Service Quality

Before formulating any marketing strategy, a firm must clearly define what quality means to it. The next step is to come up with a method that measures quality in quantifiable terms, so that any deficit towards achieving the same may be identified and accordingly rectified.

Service elements are different from those of manufactured goods. The logic behind producing and marketing a good or service product is to achieve conformance, i.e., to pre-empt customers' needs and expectations and strive to meet them. In case of manufacturing, it is relatively easier to measure customers' needs, as there is homogeneity of need over large segments. For instance, customers value a blanket in terms of its core value, that is, to impart warmth, irrespective of their class, gender, personality traits, etc. Since the manufactured goods can be owned and endure for a long time, it is comparatively easier for the marketers to set a price and justify it to the target customers.

On the other hand, a service is intangible and perishable involving no ownership on the part of the customers. Hence, it becomes extraordinarily difficult for the marketers to put across the value of a service to the customers. Hence, quality takes on a completely different implication here. It may be translated as perceived quality, that is, the quality as perceived by the customers. The assessment of quality, therefore, more or less lies on the customers and not the producers. A restaurant may believe that it serves the most authentic Thai food in the city, but unless customers think so, the quality would not be translated into perceived quality, which in turn will not fetch results in terms of revenue and more customers. Service market analysts have come up with several models and approaches that aim at defining parameters for measuring and imparting service quality.

Gap Analysis

Another approach towards achieving conformance in services is to identify various gaps that occur during the service process. Zeithaml, Berry and Parasuraman came up with four such gaps that occur during service processing within the organization. They all lead to the most severe gap, that is, the gap between what the customers expected out of a service and what, according to the customers' perceptions, was eventually delivered. Later market analysts modified this gap model and added three more gaps that can possibly occur during a service process.

Step 1. Knowledge Gap: This gap may occur at the beginning of the service process, when marketers assess what the customers' needs and expectations are

from a particular service. The gap happens when there is disparity between the customers' needs/ expectations and what the marketers believe them to be.

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Step 2. Standards Gap: The next step of the service process is management's definition of what the target segment needs and expects. This translates into setting down standards to ensure that the service delivery meets those expectations. The gap occurs when there is a disparity between the management's perceptions and the actual delivery standards that are established by the service provider.

Step 3. Delivery Gap: The next step for the service provider is to strive to deliver the service according to its set delivery standards. The delivery gap takes place when the actual performance ability of the service provider does not match the standards set down for service delivery.

Step 4. Internal Communications Gap: The next step is for the marketing team to formulate marketing and promotional campaigns. They promote the service on the basis of specific features, quality level and so on. The internal communication gap takes place when the campaigns overpromise. In other words, the promotional campaigns covey more in terms of features, quality, and performance than what the service provider can actually deliver.

Step 5. Perceptions Gap: The next step entails the delivery of the service to the customers. The possible gap that may occur at this stage is in terms of what is actually delivered and how customers perceive what is delivered.

Step 6. Interpretation Gap: In advance of delivery, the service providers try to communicate certain promises to the customers. The interpretation gap happens when the communication between the customer and the service provider is done at cross-purpose. In other words, when what the service provider promises is interpreted differently by the customers.

Step7. Service Gap: It is the most severe gap that undermines the entire service process. In a way, it is a culmination of the other six kinds of gaps. When there is a disparity between what the customer expected from the service and how he or she perceived the eventual service delivery.

Knowledge gap, perception gap, interpretation gap and service gap are external gaps, that is, they take place between the service providing organization and the customer. The remaining three are internal gaps, as they take place along the organizational hierarchy.

The key to maximizing customers' satisfaction and their perception of quality in relation to the delivered service is to identify these gaps at appropriate stages and implement measures to close them as much as possible. The following are guidelines that may be put to use to achieve the desired objective:

- A comprehensive research must be undertaken to find out what the customers expect.
- Organizations that already have a customer base may consider forming customer panels and forums so that the relevant information in terms of

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expectations and needs that they have from particular services may be obtained.

- A careful analysis of the assembled data is extremely important. An erroneous reading of the data may lead to wrong conclusions and hence knowledge gap.
- The analysis must be incorporated within the action plan.
- The management must be focused towards providing high level of service quality.
- The management must establish clear, logical and realistic goals for the desired service quality.
- The management should prioritize those elements, and the corresponding jobs, of service process that have the highest impact on the service quality.
- There must be regular feedbacks to measure the service quality.
- The role of each employee must be clarified in terms of its contribution to creating highest service quality.
- The people hired for interacting with the customer must be carefully selected.
- Regular reward programs must be organized so as to motivate the employees to deliver best possible service quality.
- Empowering employees and managers encourages quick decision-making and improvisation in case of a service failure.
- The customers may be treated as partial employees.
- Customers play specific roles in service delivery. It is important to make them understand their role in achieving service quality.
- The advertising campaigns must be created not in isolation but by taking inputs from operational level employees also.
- Internal communication between all departments, especially human resource, marketing and operations must be facilitated.
- It helps to clarify before the purchase, what the customers should expect and what not to expect.
- The clarification on the part of service firm helps build trust in the customers and closes service gaps.
- All advertising campaigns must be tested first on a small segment of ordinary people in order to understand what and how they interpret the message. This helps close down the interpretation gap.

- In order to close down the perception gap, it helps to offer as many physical evidences and tangibles to the customers as possible.
- Each organization must develop its own gap identifying model and work towards closing those gaps.

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Check Your Progress

1. What are the four categories of product?
2. What are the three levels of a product?
3. List the gaps that occur during a service process.
4. What is internal communications gap?
5. What are the types of external gaps?

5.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Four categories of product offers are (i) Pure tangibles (ii) Tangibles with accompanying services (iii) Major services with accompanying minor goods (iv) Pure services.
2. The three different levels of an individual product are core product level, tangible produced level, augmented product level.
3. Various gaps that occur during the service process are knowledge gap, standard gap, delivery gap, internal communications gap, perceptions gap, interpretation gap, and service gap.
4. The internal communication gap takes place when the campaigns overpromise. In other words, the promotional campaigns covey more in terms of features, quality, and performance than what the service provider can actually deliver.
5. Knowledge gap, perception gap, interpretation gap and service gap are external gaps, that is, they take place between the service providing organization and the customer.

5.5 SUMMARY

- It is important to understand the process by which customers evaluate the total service offering. Customers initially assess the core service for its ability to satisfy their substantive needs.

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- Customer orientation is being redefined as the customer benefit concept, according to which a service offering cannot be defined without the consumer benefit concept being considered.
- In the case of service marketing, even the product element is dependent on the human influence and subjectivity, meaning how the service product is perceived also depends on how it is delivered.
- Tangible goods offerings as well as intangible service offerings are both used to define the term 'product'. In other words, a product is a combination of tangible and intangible attributes that is inclusive of functional, social and psychological utilities and benefits. A product can be an idea, a service, a good, or any combination of these three.
- Four categories of product offers are (i) Pure tangibles (ii) Tangibles with accompanying services (iii) Major services with accompanying minor goods (iv) Pure services.
- The fact that a service cannot be separated from the person who provides it, nor from the place where it is provided, results in services being consumed as soon as they are produced and this means a high degree of buyer/supplier interaction.
- Organization/client interface and user participation are critical elements influencing the consumer's perception of a service product.
- The three different levels of an individual product are core product level, tangible produced level, augmented product level.
- Before formulating any marketing strategy, a firm must clearly define what quality means to it. The next step is to come up with a method that measures quality in quantifiable terms, so that any deficit towards achieving the same may be identified and accordingly rectified.
- Quality takes on a completely different implication in the case of service. It may be translated as perceived quality, that is, the quality as perceived by the customers.
- Another approach towards achieving conformance in services is to identify various gaps that occur during the service process. The gaps are knowledge gap, standard gap, delivery gap, internal communications gap, perceptions gap, interpretation gap, and service gap.
- The key to maximizing customers' satisfaction and their perception of quality in relation to the delivered service is to identify these gaps at appropriate stages and implement measures to close them as much as possible. A comprehensive data on customer's expectations and an analysis of the assembled data will give an understanding of the gaps.

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5.6 KEY WORDS

- **Augmented product:** The augmented product is the non-physical part of the product which comprises added value. For example, in the case of a car, the augmented product will be the warranty.
- **Perceptions gap:** The perception gap occurs during the delivery of the service to the customers. The possible gap that may occur at this stage is in terms of what is actually delivered and how customers perceive what is delivered.
- **Service gap:** It is the most severe gap that is a culmination of the other six kinds of gaps. This gap occurs when there is a disparity between what the customer expected from the service and how he or she perceived the eventual service delivery.
- **External gap:** External gaps take place between the service providing organization and the customer.

5.7 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on customer benefit concept.
2. What are the three elements of service concept?
3. Write a short note on service quality.
4. What are internal gaps? How do they differ from external gaps?

Long-Answer Questions

1. Discuss in detail the significance of service quality.
2. Explain the gaps that occur during service processing within the organization.
3. Discuss the guidelines for achieving customer satisfaction and improving perception of service quality.

5.8 FURTHER READINGS

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UNIT 6 PRICING IN SERVICES

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Structure

6.0 INTRODUCTION

A business can use a variety of pricing strategies when selling a product or service. The price can be set to maximise profitability for each unit sold or from the market overall. It can be used to defend an existing market from new entrants to increase market share within a market or to enter a new market. Businesses may benefit from lowering or raising prices, depending on the needs and behaviours of customers and clients in the particular market. Finding the right pricing strategy is an important element in running a successful business. Equally important is a viable method of costing. In a service-based industry, a variable cost, a cost that increases and decreases as you make more sales, is the cost of your subcontractors. Another type is the fixed cost. These are items such as rent. One has to consider the efficiency of fixed costs and how these fixed costs are either feeding or draining the profit in a business. Understanding these two elements is the key to understanding and making sure your business is cost efficient.

6.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the meaning and objectives of pricing
- Discuss the characteristics of services and pricing
- Analyse the aapproaches to pricing services
- Describe the methods of demand based pricing

6.2 MEANING OF PRICE AND OBJECTIVES OF PRICING

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The pricing component of the service marketing mix is different from that of a traditional marketing mix. As there is no physical purchase being done, the evaluation of the service becomes difficult. Companies have to be careful and take into account the additional expenditure that may be brought upon the customers while availing a particular service. It is also important that the customers do not feel that the value of the service provided does not match up to the cost incurred by them.

Price is the financial mediating device by which exchange takes place between service providers and their customers. The term 'price' within the services sector means different things such as fees, fare, toll, rates, charges and subscriptions. Successful pricing is the skill by which a price level must perform the dual task of appealing to customers by being reasonably priced yet high enough to allow a service provider to achieve its financial objectives.

6.3 CHARACTERISTICS OF SERVICES AND PRICES

Price is the financial mediating device by which exchange takes place between service providers and their customers. Within the services sector, the term 'price' often passes under a number of names, sometimes reflecting the nature of relationship between customer and provider, for instance, fees, fare, toll, rates, charges and subscriptions.

The art of successful pricing is to establish a price level which is sufficiently low so that the exchange represents good value to consumers, yet high enough to allow a service provider to achieve its financial objectives.

Price involves a number of strategic uses:

- At the beginning of the life of a new service, pricing is used to gain entry into a new market. An estate agent firm seeking to extend its operations may initially charge very low commission rates in order to gain awareness and entry into thelocal market.
- Price is used as a means of maintaining market share of a service during its life and is used tactically to defend its position against competitors.
- Prices must be set at a level that allows companies to meet their financial objectives.

- Services are more likely than goods to be made available to consumers by methods where price is not the focal point of exchange.
- Many public sector services are provided to the end-user at either no charge or at one that bears little relation to the value of a service to the consumer or producer.
- Public services such as museums and schools that have sought to adopt marketing principles often do not have any control over the price element of the marketing mix.

Museums and schools are public services that adhere to marketing principles, often do not participate in the pricing element of the marketing mix. The rewards for attracting more visitors to a museum may be additional to the centrally derived grants rather than income received directly from the users of the service. We may also understand pricing strategies by looking at the example of Big Bazaar, catering to the middle class, and a high-end luxury brand such as Gucci catering to the elite. In terms of brand value, Big Bazaar has a reputation for catering to the mass. It is moderately priced with regular discounts and sells goods that are utility based. As opposed to this, luxury brands such as Gucci or Prada sells goods that are marketed differently. Here the USP is developed in a way that always gives a sense of being more than a mere merchandize. More often than not, high-end retail or services outlets such as spas offer a sense of lifestyle that is distinct from the masses.

6.4 SERVICE COST

A cost may be broadly defined as the amount of forfeiture attributed to a specified activity, item, process, etc. According to CIMA, London, 1991 cost is 'the amount of expenditure (actual or notional) incurred on, or attributable to, a specified thing or activity'. Commenting on the concept of cost, Anthony and Welsch state that cost is a measurement, in monetary terms, of the amount of resources used for some purposes. Thus, cost represents the amount of resources given up to obtain a given object or objective. This may be measured in cash expanded, property transferred and performed. It can also be measured as the time required toaccomplish a given task, the energy consumed to manufacture a product, or the opportunities lost by choosing one course of action over several available alternatives. In managerial accounting, the term cost is used in different ways and a management accountant must provide managers with a clear understanding of what types of costs have been incurred. In turn, the management must understand the peculiarity of a given situation and that the concept of cost may vary according to a situation.

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Many students use the term *expense* as a synonym of *cost*. Although these two terms are related to each other, they differ both in their meaning and scope. To comprehend the differences between the terms, students need to study the conceptual difference between expired and unexpired cost. An *expired cost*, technically called *expenses*, is the portion of expenditure incurred by the organization from which the latter accrues economic benefits during the current period. Therefore, expired cost represents the amount of expenditure that can be attributed to an item or a thing that would generate economic benefit for the organization during the current accounting period. An *unexpired cost* is the unused portion of economic benefits attributed to the expenditure that the organization expects to enjoy in future.

Service Costing

The form of costing that aims to determine the costs incurred by the service organizations for creating and delivering services is referred to as service costing. Traditionally, service costing was known as operating costing. The basic purpose of service costing is to accumulate the costs of the various operations associated with the creation and delivery of a specific service and express the same in terms of the unit of service created and delivered. According to CIMA, 1991 service costing is *the costing of specific services and functions, e.g., canteens, maintenance, personnel. These may be referred to as service centres, departments or functions*.

Thus, service costing is a method of costing that collects, accumulates and ascertains costs for operating a service. Therefore, such a method of costing is generally preferred by those industries which render services like nursing home, hospital, railway, airways, etc. Since operating costing recognizes each particular service as a separate unit, therefore, it ascertains cost per unit of service.

It is pertinent to mention here that the service created by the organization may be consumed either internally by the departments or externally by the users.

Features of Service Costing

The basic features of service costing are mentioned below.

- Service costing is designed for such organizations that are engaged in the creation of intangible output.
- The term *cost unit* as used in service costing is a *composite unit* which is a much wider term than simple cost unit as used under product costing method engaged by manufacturing organizations.
- The computation of costs under service costing is generally done period-wise.

- The majority costs in service costing are fixed in nature.
- The demand for the output of the organizations that use service costing fluctuates which makes cost estimation difficult.
- The calculation of work-in-progress and closing stock is easy under service costing.

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6.5 APPROACHES TO PRICING SERVICES AND METHODS OF DEMAND BASED PRICING

Demand-based pricing is a pricing method that uses consumer demand, based on perceived value as the central element. It is also known as customer-based pricing. This includes — price skimming, price discrimination, psychological pricing, bundle pricing, penetration pricing, and value-based pricing.

The components of pricing factors are manufacturing cost, market place, competition, market condition, and quality of the product.

Price Skimming

It is a strategy for pricing in which a marketer sets a relatively high price for a product or service at first and reduces the price over time. In other words, price skimming is when a firm charges the highest initial price that customers will pay. As the demand of the first customer is satisfied, the firm in order to attract other customers lowers the price. Sometimes, price skimming is referred to as riding down the demand curve.

The objective of a price skimming strategy is to capture the surplus of the consumer. Before the competition steps in, it quickly allows the firm to recover its sunk costs and then lowers the market price. If this objective is fulfilled, then, theoretically, no customer will pay less for the product than the maximum amount they are willing to pay. However, practically, it is not possible for a firm to capture the consumer surplus.

Price Discrimination

Price discrimination occurs when sales of identical goods or services are transacted at different prices from the same provider. In fully competitive retail or industrial markets, product heterogeneity, market frictions, or high fixed costs (which make marginal-cost pricing unsustainable in the long run) has provision for some degree of differential pricing to different consumers. Price discrimination also exists when the same price is charged from customers for goods and services that have different supply costs. Price discrimination necessitates market segmentation and attempts to discourage discount customers from becoming resellers or even competitors.

This usually entails using one or more means of preventing any resale, segregating different price groups, making comparisons price difficult, or restricting information on pricing.

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Psychological Pricing

This is a marketing practice based on the theory that certain prices have a psychological impact. The retail prices are often expressed as 'odd prices'— a little less than a round number, e.g. $19.99. The theory is based on the assumption that if consumers were perfectly rational, it would drive demand greater than expected.

Bundle Pricing

It is a marketing strategy that entails offering several products for sale as one combined product. This strategy is very common used in the software, cable television and in the fast food industry where multiple items are combined into a complete meal. A bundle of products is sometimes referred to as a package deal, a compilation, or an anthology.

Penetration Pricing

This is the pricing technique to attract new customers by setting a relatively low initial entry price, often lower than the eventual market price. This technique functions on the basis that owing to the low price the customers will switch to the new brand. Penetration pricing is associated with a marketing objective of increasing market share or sales volume, rather than to earn profit in the short term. The main disadvantage with penetration pricing is that it creates long term price expectations for the product as well as image preconceptions for the brand and company. This makes it difficult to eventually raise prices.

Value-based Pricing

This involves setting prices primarily, though not exclusively, on the value, perceived or estimated, to the customer rather than on the cost of the product. The success of value-based-pricing is realized when products are sold based on emotions (fashion), in niche markets, in shortages (e.g. drinks at open air festival on a hot summer day), or for indispensable add-ons (e.g. printer cartridges, headsets for cell phones). By definition, long term prices based on value-based pricing are always higher or equal to the prices derived from cost-based pricing.

6.5.1 Pricing under Various Conditions

Price is the value which a buyer passes on to the seller in lieu of the product or service provided. Price is one of the most crucial elements of marketing mix because customer is very sensitive to this element. Little variation in the price may shift a firm's customer to competitor's product; for example, if the price of Pepsi is changed

from Rs 8 to Rs 8.50, then the customer will start demanding Coke, which is still available at Rs 8. Therefore, it is, important that decisions regarding pricing be taken with care and caution. Price must match the utility offered by the product or service. The customer is always ready to pay a price equal to utilities he gets from the product.

Price is normally expressed in monetary terms. Price is addressed by different names; for example, price for education is known as tuition fees, price for using road is toll, price for job is salary, price for apartment is rent, etc.

Price mix refers to important decisions related to fixing of price of a commodity. These decisions can be related to price of competitors, decisions related to demand, fixing cost, etc.

Assigning a monetary value to a product or service or fixing the price of a product or service is not an easy job. Various factors need to be evaluated.

1. **Pricing Objectives:** The objective of the firm is a very important factor which helps in deciding the price. For example, if the objective of company is to maximize its profit, then generally, high price is fixed, whereas the company, whose objective is to maximize sales, prefer keeping low price to increase the sale and capture a big share in the market.

   If the objective of the company is to create a special image with innovative technologies then the prices are generally kept high, for example, the companies like Rolls Royce or Mercedes etc., cannot lower the prices of their product as it will affect their image.

   Apart from profit maximization, the pricing objective of a firm may include the following:

   (a) **Obtaining Market Share Leadership:** If a firm wants to capture a big share in the market then it has to keep its price low so that more number of people purchase the products.

   (b) **Surviving in a Competitive Market:** The firms in order to survive in a competitive market have to reduce their price by offering discounts.

   (c) **Attaining Product Quality Leadership:** In this case, high prices are generally charged to cover the cost and high cost of research and development.

2. **Product Cost**: The second important factor which is to be kept in mind while fixing the price of a commodity is the cost of product or service. The price of the product must be able to cover its total cost. Total cost includes both fixed and variable cost. Fixed costs are fixed

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irrespective of the level of production, for example, rent of factory, cost of machinery, salary of permanent staff, etc. The variable costs vary with production e.g., cost of raw materials, wages of labour, etc.

The price of product or service is fixed after calculating the total cost. In case of high competition and to capture a big share in the market if the firm has to fix a low price then at least the price must cover the variable cost and fixed cost can be ignored for the time being.

3. **Extent of Competition in the Market:** The third important factor which is kept in mind while setting up the price is the level of competition a firm faces from its competitors. When a firm does not face any competition then it can enjoy complete freedom in fixing the price. But when the competition is stiff then the price is fixed keeping in mind the price of competitor's product; for example, Pepsi company cannot fix the price of its drinks without considering the price of Coke and other cold drinks available in market.
4. **Customer's Demand and Utility:** Another factor which is kept in mind while fixing the price is the demand of product or service. When demand of the product is inelastic i.e., if no or very less substitutes are available then company can fix a high price. However, when demand is elastic i.e., more substitutes are available then price has to be brought down.

   On the other hand, if the demand for the product is high then price can be high but when the demand is low, price has to be brought down.

   If a product is offering higher utility, one can easily charge high price as customer is ready to pay high price if he gets high value from the product. However, if the utility of the product is low then high price cannot be charged.
5. **Government and Legal Regulations:** In order to protect the interest of general public, the government has all the right to control the prices of various products and services by including the products in the category of essential commodities.

   The common commodities in essential commodities are drugs, some food items, LPG, etc. Owing to intervention of the government a check can be imposed on the monopolist as they cannot charge unfairly high price for essential commodities.
6. **Marketing Methods Used:** The price of the product also gets affected by various techniques of marketing methods used to promote the products. If a company is promoting the sale of a product by employing intensive advertising then it will charge high price for the

product. Other marketing methods which affect price of a product are— packaging, distribution system, salesmen employed, customer support services etc.

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Check Your Progress

1. What is demand-based pricing?
2. What are the components of pricing factors?
3. Define price skimming.
4. What are the disadvantages of penetration pricing?
5. What are some of the marketing methods that affect pricing?

6.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Demand-based pricing is a pricing method that uses consumer demand, based on perceived value as the central element.
2. The components of pricing factors are manufacturing cost, market place, competition, market condition, and quality of the product.
3. Price skimming is a strategy for pricing in which a marketer sets a relatively high price for a product or service at first and reduces the price over time.
4. Penetration pricing is the pricing technique to attract new customers by setting a relatively low initial entry price. The main disadvantage with penetration pricing is that it creates long term price expectations for the product as well as image preconceptions for the brand and company. This makes it difficult to eventually raise prices.
5. Some of the marketing methods which affect price of a product are packaging, distribution system, salesmen employed, customer support services, etc.

6.7 SUMMARY

- The pricing component of the service marketing mix is different from that of a traditional marketing mix. As there is no physical purchase being done, the evaluation of the service becomes difficult. Companies have to be careful and take into account the additional expenditure that may be brought upon the customers while availing a particular service.
- Successful pricing is the skill by which a price level must perform the dual task of appealing to customers by being reasonably priced yet high enough to allow a service provider to achieve its financial objectives.

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- The form of costing that aims to determine the costs incurred by the service organizations for creating and delivering services is referred to as service costing. Traditionally, service costing was known as operating costing. The basic purpose of service costing is to accumulate the costs of the various operations associated with the creation and delivery of a specific service and express the same in terms of the unit of service created and delivered.
- Price is the financial mediating device by which exchange takes place between service providers and their customers. The art of successful pricing is to establish a price level which is sufficiently low so that the exchange represents good value to consumers, yet high enough to allow a service provider to achieve its financial objectives.
- Demand-based pricing is a pricing method that uses consumer demand, based on perceived value as the central element. It is also known as customer-based pricing. This includes — price skimming, price discrimination, psychological pricing, bundle pricing, penetration pricing, and value-based pricing.
- The components of pricing factors are manufacturing cost, market place, competition, market condition, and quality of the product.
- Price skimming is a strategy for pricing in which a marketer sets a relatively high price for a product or service at first and reduces the price over time.
- Price discrimination occurs when sales of identical goods or services are transacted at different prices from the same provider. Price discrimination also exists when the same price is charged from customers for goods and services that have different supply costs.
- Psychological pricing is a marketing practice based on the theory that certain prices have a psychological impact.
- Bundle pricing is a marketing strategy that entails offering several products for sale as one combined product.
- Penetration pricing is the pricing technique to attract new customers by setting a relatively low initial entry price, often lower than the eventual market price. This technique functions on the basis that owing to the low price the customers will switch to the new brand.
- Value-based pricing involves setting prices primarily, though not exclusively, on the value, perceived or estimated, to the customer rather than on the cost of the product.
- Little variation in the price may shift a firm's customer to competitor's product. Therefore, it is, important that decisions regarding pricing be taken with care and caution. Price must match the utility offered by the product or service.
- Price mix refers to important decisions related to fixing of price of a commodity. These decisions can be related to price of competitors, decisions

related to demand, fixing cost, etc.

- Some of the factors influencing the pricing are pricing objectives, product cost, extent of competition in the market, customer's demand and utility, government and legal regulations, and marketing methods used.

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6.8 KEY WORDS

- **Price skimming:** Price skimming is a strategy for pricing in which a marketer sets a relatively high price for a product or service at first and reduces the price over time.
- **Psychological pricing:** Psychological pricing is a marketing practice based on the theory that certain prices have a psychological impact.
- **Bundle pricing:** Bundle pricing is a marketing strategy that entails offering several products for sale as one combined product.
- **Penetration pricing:** Penetration pricing is the pricing technique to attract new customers by setting a relatively low initial entry price, often lower than the eventual market price. This technique functions on the basis that owing to the low price the customers will switch to the new brand.

6.9 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on price as a component of the service marketing mix.
2. What are the strategic uses of pricing?
3. Write a note on the role of competition in determination of pricing.
4. What are the features of service costing?

Long-Answer Questions

1. Describe the different types of demand-based pricing.
2. Explain the factors influencing pricing mix.
3. Discuss some of the pricing objectives followed by a firm.

6.10 FURTHER READINGS

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UNIT 7 SERVICE PROMOTION

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Structure

7.0 INTRODUCTION

The task of managing markets and ensuring a good fit between supply and demand is more complex for service than for goods. Because goods manufacturers are able to separate production from consumption, they can hold stocks of goods that can be moved to even cut regional imbalances in supply and demand. Stocks can also be built up to cater for demand peak. Many of the strategies for managing the supply and demand, which are available to goods manufacturers, are not available to service producers. The perishability and inseparability of the service often means that it is not sufficient to match supply and demand over longer terms within a broadly defined geographical market. Instead, supply and demand must be matched temporally and spatially. An excess of production capacity in one time period cannot be transferred to another period when there is shortage; nor can excess demand in one area normally be met by excess supply located in another. Also, products need to be made available in adequate quantities, in convenient locations and at times when customers want to buy them. Channel intermediaries are those organizations which facilitate the distribution of products from producers to customers. Channel of distribution is the means by which products are moved from producer to the ultimate customer. Producers need to consider not only the needs of the ultimate customers but also requirements of channel intermediaries. This unit will discuss about the promotion of services and their delivery.

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7.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand market communication and communication process
- Analyse the purpose of communication
- Discuss communication objectives and different communication channels
- Describe the steps in the advertising process

7.2 MARKET COMMUNICATION

Promotion and communication hold immense importance in the service marketing mix. In the absence of a visual, physical product to be used in promotion, the promotional marketing for a service relies heavily upon the communication with the prospective customers about the services and the additional benefits. In services marketing, most of the communication is educational in nature.

Promotional campaigns are used for customer acquisition, customer retention, creating or consolidating customer base, and increasing brand awareness. If used in the right way, it can also serve as a tool for customer education, leading to reduced perceived risk and instil trust and confidence in customers. Communication and the right kind of communication play an important role in effective promotional campaigns.

A service organization comprises both internal customers as well as external customers. The communication tools should be created and implemented in a way that addresses both kinds of customers. While establishing communication tools through which promotional campaigns will reach the customers, it is important to take into consideration possible lapses that might occur, for instance, technological glitches, issues regarding the appropriateness of content or even budget-related concerns.

Before embarking on a promotional campaign, the marketers must first set down the objectives and goals that the promotion aims at. They should also specify the segment the firm is targeting. Recall the various elements of the service marketing mix that you learnt in the preceding units. Marketers must utilize various elements of promotion mix and formulate an effective promotional campaign.

An effective communication program involves the following considerations:

- The foremost step is to specify a target segment, profile the various customer groups in the form potential buyers, existing customers and so on.

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- As stated above, the objective of the communication programs should be specified beforehand, e.g., increasing customer knowledge/ educating customers in case of a new service launch, or differentiating one's service from those offered by the competitors, when there are a number of service providers in the same market segment.
- The firm should allocate a specific sum for promotional purposes.
- The firm should decide what message it wants to communicate through its communication program.
- It is important to use the right medium for the communication program. It could be direct media (personalized mails, customer-specific magazines, etc) or it could be mass media, e.g., television, radio, newspapers and so on.
- The last step, and probably the most important, is to procure feedback on the overall communication program from a small cross-section of the target segment. For example, VLCC has one of the most robust advertisements in print media. Different products, services and centres are announced through advertisements.

7.3 COMMUNICATION PROCESS: DETERMINING THE COMMUNICATION OBJECTIVES AND SELECTING THE COMMUNICATION CHANNELS

Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communication like publicity, sponsorship, and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, and sponsorship. The real issue is how a company can use communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Often, a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. Therefore, it becomes important to understand other methods of marketing communication besides advertising.

7.3.1 Purpose of Communication

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The task of communication is not to get one's ideas across to the other party. The real purpose of communication is to elicit the desired response from the target audience. Eloquence, sophistication and suave demeanor are pleasing to the communicator himself, but serve absolutely no purpose in changing the attitudes and the behaviour of the target audience.

The target audience looks for conviction in the communicator. The target audience feels that if the communicator himself does not believe in the idea, he has no right to preach. The intent of the communicator is more important to the audience. The communicator should be focused on the interests of the target audience. Howsoever shoddily made an advertisement may be, or howsoever clumsy may a speaker be, the audience will sit up and take note when they hear their interests being discussed. It is what an advertisement or a speaker says that matters to the audience and not really how he says it. Especially in situations where one individual talks to another individual or a group, effectiveness of communication is directly dependent on the intent, knowledge and conviction of the communicator. The most reticent of men became verbose when they are knowledgeable and convinced about an idea.

The world of communication has for long been concentrating on polishing the medium of communications, like speech and advertisement, and somewhere down the line ignored the content that the message was supposed to carry. The audience too has been impressed with the slickness of the ad and the eloquence of the speaker, but the message never really registered in his mind. The purpose of communication is to elicit the desired response from the target audience.

Process of communication

Customers go through a complex chain of mental events from the time they see or hear an advertisement until they decide to make or not make a purchase. For marketing communication to succeed, two processes must take place in the customers' minds. First, what the customers saw, heard, learned, thought, or felt while exposed to the advertisement must be processed and stored in memory, and second, this stored information in customer minds must be retrieved at the crucial moment when a customer faces a purchase decision. For an advertisement to be successful, a customer must have the motivation, the ability and the opportunity to process and store the information in the advertisement and retrieve the information when the customer is about to make a purchase decision. Therefore, the customer exposed to an advertisement must be interested in the advertisement, knowledgeable enough to understand it, and free from distractions of other stimuli. Also the mental processes must occur with sufficient intensity or effort, and must be focused towards the advertised brand.

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Since the chain of events that marketing communications must stimulate is so complex, a wide variety of communication methods have to be used. This means using the whole range of communication methods – advertising, publicity, sponsorship and sales promotion. Or it may mean using several advertising media or different avenues within one media. The idea is to get the message across to the customers in a forceful way so that he is able to process the message and store it. Relying on a single source is dangerous as the customer may just miss the message unless he is in a state of heightened awareness, because he wants to make a purchase decision, and is actively scouting for brands in the category that the advertised brand belongs to.

Companies that rely solely on television advertising face the problem of customers not being able to connect an advertisement with the brand it promotes. This particularly happens with advertisements that customers find engrossing. Since the intensity of customers' involvement in the advertisement is high, all their focus is on processing and storing the interesting set up, message or storyline in the advertisement, and they miss the name of the advertised brand. Viewers often associate very popular advertisements with some other competitor brand of the same category. The company, thus, ends up promoting a rival brand. Viewers mistakenly attributed a popular advertisement for Eveready Energizer batteries to Duracell, Eveready's main competitor. In such situations, customers process and store the advertisement with sufficient intensity but in the wrong direction. A second communication method, if used, will set the direction right. So a packaging which uses the images of the advertisement, or a radio advertisement which uses the jingle, music, or the message of the television advertisement will help the customers retrieve the message and link it to the advertised brand.

Companies frequently use less expensive radio or print advertisement to reinforce expensive television advertising. The main vehicle is television advertising and, hence, the total campaign becomes expensive. But a reverse sequence can also achieve the same purpose. Television advertisements can be used to supplement radio or print advertisements. Since the staple promotion vehicles will be the less expensive radio and print advertisements, the total campaign cost would be lesser but the effectiveness would be same or even more.

Consumer psyche: How messages are received

Marketers want the attention of the customers in their target market. Customers are largely ignoring unsolicited advances from marketers. Customers are facing pressures from more urgent quarters of life and it would be naïve to believe that they would be willing recipients of whatever marketers have to tell them through their promotional efforts. The customer's attention is at premium and marketers will have to understand customer's psychobiology of attention to be able to get their messages across to him.

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- People are hardwired to fight for survival. If marketers want customers to act in a certain manner they will have to tell consumers the consequences of their not acting in that particular manner. If a retailer wants consumers to buy during a sales promotion, he should clearly communicate the difference in price between during sales and after sales period. And this difference should be big enough to get the consumer thinking about the amount of money he will lose if he did not buy now. Marketing communication should force the consumer to think for himself and take action in self defense. If a company is launching a new or an improved product, it should let consumers know the consequences of not owning that product. Marketing communication can become scary but if a company is running 'true' sales or it has launched a' genuine' new product, it should want its consumers to benefit from these. But if the threat does not turn out to be real even once, consumers will forever stop trusting the company's communications. No person will take kindly to being scared for nothing.
- People are naturally competitive. People play games to win the trophy. If there was a trophy for everyone, most of us would not be interested in a game. Make your product hard to get. Communicate that not everyone can have your product even if they want to, because the company has a limited number of products which it will sell in a limited time frame. Ensure public competition for your product. Advertise a short sales period and a steep price decline. Advertise a new product launch with a deadline date for purchase. A company can devise games for their advertisements and websites, and tempt customers to play them for the rewards offered on winning.
- Do not let distractions cloud the main message. A company's multiple messages from multiple vehicles will draw less than optimum customer attention on each one of them. Consumers reserve limited attention for a company's message and if this is spread too thin over many messages, attention on any one of them will not reach the threshold to prompt an action. A company should be running one core message at any one time. If a company is running an advertisement campaign for a new product launch, it cannot be running a sales promotion scheme or publicizing some act of good corporate citizenship simultaneously. A company should decide the response it wants to elicit from its customers and design and run an appropriate dominant message to get the desired response. The conventional wisdom of inundating customers with multiple messages from multiple vehicles in the hope that at least some will stick, does not work. Nothing sticks.
- People want to feel engaged. One the most important factors for gaining and sustaining attention is engaging people's emotions. Plain advertisement will never engage customers. The product and messages about it should

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have more relevance than the benefits it provides. The messages could be about issues which are of interest to the consumers. If the company uses a celebrity to endorse its products, the celebrity should be personally interested in some cause that the consumers are interested in. Independent of the themes running in advertisements, companies can promote causes dear to its customers. The idea should be to form some sort of a joint endeavour between the company and its consumers to help the cause.

Unambiguous, single signal to targeted customers

For major campaigns like product launches, separate groups in the company and outside agencies are responsible for separate aspects of the campaign like mass advertising, direct promotion, on-line promotion and others. These groups and agencies develop, manage and evaluate their part of the programme. The assumption is that these independent efforts can only reinforce each other. But while they may succeed individually according to their own performance measures, they often fail as a whole to support business objectives such as launching a product successfully. The efforts can also directly undermine each other. For instance, a company can run an advertising campaign to build brand awareness and differentiate its offering, but it may also run a direct mail programme focused on generating responses and hence sending discount coupons indiscriminately.

To avoid this waste, marketing managers should follow a 'systems' approach in which some element can be compromised to better serve the needs of the whole. Therefore, if the company wants to build a brand by differentiating itself, it will refrain from sending discount coupons. The performance of the direct mail programme may be compromised but the performance of the campaign as a whole will improve. But the groups will not agree to compromise on their individual performances. A person with a broad responsibility for all aspects of the marketing campaign will have to be appointed. This person understands the overall objective of the campaign has knowledge of all the marketing disciplines that are involved in the campaign and has powers to guide and curtail the activities of the individual groups.

This person constitutes a small marketing team and goes about directing various groups in a way as to maximize value from the campaign. Each marketing discipline has a goal in relation to other disciplines and also in relation to the overall objective of the campaign. The objective of the campaign is more likely to be achieved if various groups work in coordination, rather than independently, under the guidance of the marketing team.

Use the right time and correct channels

Marketers are inundating customers with e-mails, phone calls and direct mailings but when customers actually require help from them, they are normally not available.

This happens because companies spend their time figuring out whom to target and with what message, and largely ignore the question of when to communicate with customers.

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Companies have to specify when to interact with customers as well as what to say to them when they do so. Instead of sending out messages according to the marketing department schedule, companies should monitor customer activity to spot the conditions under which a communication will have a real impact. When those conditions are met, the systems automatically contact the customer with an appropriate, personalized message. The process relies heavily on technology.

Dialogue is a multi-step conversation between a company and its customers that takes place over an extended period, involves multiple channels, and is triggered by customer transitions. These transitions may include conducting a first transaction in a particular category like first purchase of suit or first visit to a new property. Transitions trigger a step in the dialogue, such as sending a personalized e-mail, alerting a salesperson to make a call or sending a personalized direct mail piece. The system might create a point-of-sale message for use by a store associate during the customer's next visit. After a transition triggers a communication, the system waits for a response from the customer, and then acts accordingly. Lack of a response sets in motion its own sequence of events. Suppose a transition triggers an e-mail message, but after a week the customer has not replied, the silence alerts a salesperson to give the customer a call. The dialogue system waits another week, and then sends the customer a reminder mail.

Dialogues can be used to preempt defections, win back lost business, and prompt customers to buy more. The customers' time is valuable and they do not take kindly to companies wasting their time by feeding them information that they do not value at that point. But what is dismissed as junk at the wrong time may be valued at the right time. It is the onus of the companies to know the best time to reach their customers.

7.3.2 Non-traditional Methods of Communication

A marketer's primary communications tools are media advertising, direct mail advertising, telephone selling, trade shows and personal selling. The cost per message is lowest for advertising and highest for personal selling. Telephone and personal selling offer flexibility in tailoring the message to the target prospect, but at a substantial cost. Marketers had to be content with mixing and matching these tools to get a synergistic effect. Emergence of new communication tools has enhanced the ability of marketers to develop a more integrated, tailored, and cost-effective communication programmme.

- National account management: A few large customers account for a disproportionately large part of any company's sale in both consumer and

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industrial markets. A team headed by a national accounts manager is made responsible for understanding and serving the needs of these big spenders and maintaining profitable relationships with them. The national accounts manager is responsible for coordinating with people who work in other divisions of the seller company or in other functional areas so that the customer needs are served well. The national accounts manager is able to understand the requirements of his customer because of his long and focused association with him and therefore can offer the most suitable products and services to him.

- Demonstration centres: These are specially designed showrooms that allow customers to observe and try out complex products. A variant of the approach is a travelling demonstration center in which the equipment for sale is mounted in a trailer truck. They provide a competition-free environment for selling process.
- Industrial stores: When the sale is too small to justify sales calls, customers are asked to travel to the company's stores. The stores also serve as demonstration centers. Stores are permanent, but the same concept is used by companies that present customer seminars and demonstrations in hotels, trade shows, and other temporary facilities.
- Telemarketing: It has been in vogue for long but it has received new impetus as a communication method. Companies are using telemarketing to solicit orders from customers, to listen to customer grievances, to solve customer problems, and to inform customers of the company's new offerings. Software gadgets are being used in conjunction with telemarketing which enables the company to respond immediately to customers' requests and queries.

Check Your Progress

1. State the purpose of communication.
2. What are demonstration centres?
3. What is telemarketing?

7.4 SERVICE COMMUNICATION

Communications plays a vital role in every aspect of business, be it product oriented or services oriented business. For a long time, marketing has generally been known to be the four Ps: product, pricing, placement, and promotion. Further 3 Ps, that is people, process and physical evidence are in the context of services.

Service marketing in the context of customer experience is much newer and more prevalent and it lays an emphasis on the seven Ps. Developing two-way

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communication with existing customers and prospective customers is one of the best ways of promoting services. For long term customer engagement, advertisement alone does not work; blend of different communication platforms is crucial for customer engagement and long term growth of business.

On this backdrop, communication mix plays a crucial role in connecting, engaging, tapping and building long term relationship with customer. The elements of communication mix can include advertising, social media communication, video advertisement, direct response like email and mail-outs, service personnel, public relations, and publicity.

In order to cater specific group of customers, it is important to do segmentation and target on the basis of geographic, demographic, psychographic, and behavioral or combination of it. It is also essential to understand the exposure of target segment to different media, consumers' awareness of the service product, their attitudes toward it, and how easily they can evaluate the services' characteristics prior to purchase, and during and after consumption. A service communication consists of blend of following elements.

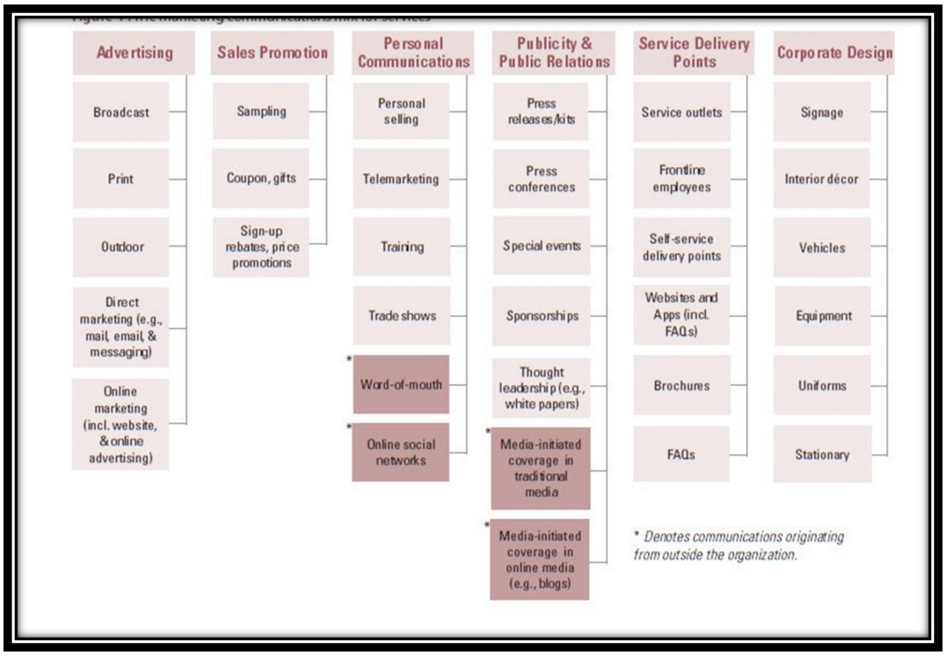


Fig. 7.1 *Marketing Communication for Services*

Source: Winning in Service Markets Series: Vol. 5, by Jochen Wirtz on 23 November 2017.

The marketing communications mix, refers to a combination of marketing tools adopted by firm to inform, pursued and remind the customer about its product or services. Services marketers adopt a wide range of communication tools to convey company's value proposition. The most frequently used communication tools are briefly described below.

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1. Advertising

Service marketers have an extensive range of advertising media platforms which are used to convey the message to target audience, including

- broadcast: television, radio,
- print media like magazines, newspapers,
- Outdoors like billboards, posters, exteriors of buses, vehicles, buildings,
- Direct marketing: mail, e-mail and messaging
- Online marketing: Website and online advertising

Advertising performs important role of brand awareness, brand building and brand preference over other service providers and remains the most popular form of communication in consumer markets.

Examples: In order to promote financial services, telecommunications services, entertainment, tourism services and fast-food services, television platform is used. Though it is expensive, it is powerful medium with broad market coverage. This is because radio offers only audio presentation and is used for announcing sales promotions and other events. Magazines are effective in advertising services like airlines and other premium services, addressed to selected target audiences. For advertising local services, newspapers are the most effective medium. Outdoor advertisement can support other media activities and can be used to inform events, movies, new performances as well as current sales promotions of services.

As compared to tangible goods, service advertisement contents of advertisement contains more factual information on price, time period, warranties, documentation of performance, and availability of services.

2. Sales promotion

For service organizations sales promotion is very important component of their communications strategy. Sales promotion tools stimulate purchase of service for a particular time; competitions with rewards contribute to a long-term relationship.

Examples: Travel discount offered by airline, discounts offered by hotel, theme parks, and hospitality during non-peak period to boost the stagnated sales.

Apart from monetary discounts, sales promotion also embraces a diverse collection of tools such as coupons, sign-up rebates, gifts, trial services.

Personal communications: The sales personnel play a very vital role in service communication strategy. This is because service companies typically have a control over service delivery channels including service outlets, which give superior service experience, are cost-effective and provide powerful communications opportunities. Personal communications has different tools like personal selling, telemarketing, word of mouth, trade shows, and online social networks.

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Examples: Personal communication is significant in industries like education, restaurants, exercise clinics, beauty salons, health care, etc.

When the service provider offers several products, frontline employees are needed to be encouraged for cross-sell services, up-sell them to higher value, and promote new ones; hence service companies need to focus on sales force selection, size, structure, and compensation of sales personnel. Continuous training, enhancing interpersonal skill, motivating, supervising, and evaluating are also essential for better performance of sales force.

Hence, Personal communications is also effective in building and maintaining the relationship with customers.

3. Public relations

For growth and long term survival of a company, it needs to focus on all the stakeholders' value. Besides the communication tools which are designed to attract target market customers, service companies also do communications with all groups of stakeholders and general public.

Public relations involve techniques aimed at promoting a company's image or its individual products. They include press releases, press conferences, obtaining testimonials from public figures, community involvement, fundraising, and sponsorship of sporting events and other activities. All these public relation activities help a service company to increase brand awareness, brand building, reputation and credibility. Media initiated coverage like blogs boost public relations.

Examples: Service companies like Insurance, securities, banking, entertainment, education, accounting companies conducts press releases, testimonials from happy customers and public figures, press conferences, community involvement activities, fundraising, and sponsorship of seminar, conference and sporting events.

4. Service delivery points

Service delivery points are another crucial aspect in service communication. Location and ambience of service outlet is very crucial from customer experience perspective. Service outlets should be capable of conveying messages about the services and it can be seen as billboards from outside. Service outlets are powerful tool of communication in appealing to both existing customers and potential customers. Frontline employees play a role of brand ambassadors, storytellers and influencing customers.

Examples: User friendly websites, apps, earned media, owned media, brochures and FAQ (Frequently asked questions) leads to attracting traffic and customer engagement.

5. Corporate design

It includes signage, interior décor, vehicle, equipment, uniforms, stationary; it also boosts the service communication.

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To conclude, the role of communication in service marketing is to strengthen the customer relationship, customer acquisition and customer retention which leverage business growth and sustainability.

Check Your Progress

4. Give an example of industry where use of personal communication is prominent.
5. Define public relations.

7.5 STEPS IN ADVERTISING PROCESS

Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer. The promise must be persuasive, unique and relevant to the consumer.

7.5.1 Developing the Advertising Strategy

The first step in the development of an advertising strategy involves identification of the target audience, following which advertising objectives can be decided. It is only after this step that effect advertising strategy can be devised.

Identify and understand the target audience

The target audience is a group at which the advertising is aimed. The target market selection should be preceded by one sound rationale – it should comprise the best prospects that would buy the product. In consumer markets, the target market may be defined in terms of the socio-economic group, age, gender, buying frequency and lifestyle. In business markets, the target market may be defined in terms of the type of industry, order size, product specifications and buyer-seller relationships.

It is extremely important to define the target audience with clarity and precision. The advertisement must be intended only for the target audience, and not for others, even if other customers in the periphery are interested in the offering. Else, the organization can feel tempted to reformulate its advertisements for customers who are not a part of the target audience, thus losing focus. A company that wants to focus on the youth audience may find takers for its products among other customers who are older. The advertisement cannot be reformulated to include

these older consumers, even though they can be an attractive revenue making proposition. The mid-path would not be attractive to the intended target audience, the youth.

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Once the target audience has been identified, it needs to be understood better. Buyer motives and choice criteria need to be analysed. Choice criteria are those factors which buyers use to evaluate competing choices. These in turn are shaped by several other external factors (such as income, social class, reference group influence, culture, buy situations) and psychological factors (such as perceptions, attitude and involvement levels).

Advertising in organizational markets is particularly interesting since different members of the decision making unit may use different choice criteria to evaluate a given product. For instance, a purchasing manager uses cost-related criteria whereas an engineer places more emphasis on the technical criteria. Where costs allow, two different advertisements may be needed, with one stressing cost benefits using media read by purchasing managers, and another focusing on technical issues in media read by engineers.

Consumer decision making may also involve various stages and multiple roles being played by different people, depending on the type of purchase decision being made. The advertiser has to decide the focus of the advertisement in terms of addressing a particular choice criteria employed by an important decision maker. Like in industrial markets, a company may have to make more than one advertisement to address the different choice criteria used by the different players in the decision making process. It is important to decide as to who the advertisement is trying to impress and influence, and then frame its appeal appropriately.

Define advertising objectives

All advertisements should increase sales. Some may induce a purchase action immediately (direct action advertising), while some may stimulate demand for a later period (indirect action advertising). The objective of advertising should be to make the consumer buy the company's brand every time he faces a need for the product. Thus, every advertisement must be framed with specific objectives that ultimately lead to an increase in sales.

***Position the offering*: **Advertisements are primarily used for positioning products in the target audience's mind. Positioning essentially involves defining what the product does and who it is meant for. Creative positioning involves development and/or reinforcement of an image or set of associations for a brand.

There are seven ways of positioning a brand:

- **Product characteristics and customer benefits:** A powerful attribute for positioning is being the number one in the market. People tend to

remember objects that are number one but may easily forget the number two positions. Occasionally, two attributes are used (cavity fighting and fresh breath) to convey positioning. Companies emphasize product attributes, features, and benefits while positioning their products.

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- **Price-quality:** Giving value through quality products sold at low prices, or high quality products at competitive prices, or superior quality at a premium.
- **Product use:** The idea is that when people think of a specific use of the product, they would automatically think of the brand name.
- **Product user:** Associate a product with a user or a user type.
- **Product class:** The product may position itself as a leader within a product class, or may position itself against the product class (for instance, 7-Up, the Un-cola).
- **Symbols:** Use of symbols is effective when the symbol reflects a quality desired in the brand.
- **Competition:** Positioning against well-entrenched competitors is effective since their image in the marketplace can be used as a reference point.

***Create awareness*:** Creating awareness helps to legitimize a company, its products and its representatives to customers. Advertising improves the acceptance of products and salespeople. Brand awareness is a precondition to purchase, and is achieved through advertising. Advertising can be used to make the target audience aware of a solution to a problem.

Stimulate trial

Once consumers try the product, the acceptance rate is high (as personal experience is the best indicator of product performance). But initially only a small proportion of target customers try the product. Advertising that stimulates trial increases the diffusion rate of the product among the target audience. New product or brand introductions particularly warrant the stimulation of trial among the intended target audience. Various promotional offers also fall into the same category.

Remind and reinforce

Once a clear position has been established in the minds of the target audience, the objective of advertising is to remind consumers of the brand's existence and reinforce its image. For many leading brands in mature markets, the objective of their advertising is to maintain top of the mind awareness and favourable associations. They have a strong market position and a major advertising task is to defend against competitive inroads, maintaining high sales, market share and profits.

Provide support for sales force

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Advertising provides support to sales force by identifying warm prospects and communicating with otherwise unreachable members of a decision making unit. Some industrial advertising contains return coupons which potential customers can send to the advertiser indicating an interest in the product. Identification of such warm prospects enables sales force to use their time more efficiently by calling upon them rather than cold calling on potential customers who may or may not be interested.

Correcting misconceptions

Advertisements can also be used to correct misconceptions which consumers hold against brands. Companies or brands that may have been tarnished due to negative publicity can be resuscitated by advertising. For instance, the leading aerated beverage manufacturers have faced the wrath of the Indian media due to the alleged pesticide content in their product. Joint advertisements have been issued by Pepsi and Coca Cola negating such claims.

7.5.2 Establish the Advertising Spend

The advertising spend is a part of the total communications spend of a company. The company must therefore decide the percentage of advertising spend as one of the components of its integrated communication campaign.

Percentage of sales method

The advertising budget is a specified percentage of current or expected sales revenue. The percentage may be based on company or industry tradition. The method is easy to apply and discourages costly advertising wars if all competitors keep to their traditional percentage. The disadvantage of the method is that it encourages a decline in the advertising expenditure when sales decline, which causes a further downward spiral of sales. It ignores market opportunities which may suggest the need to spend more (or less) on advertising. An opportunity to build market share may suggest raising advertising expenditure and a decision to harvest a product would suggest reducing expenditure. The method fails to provide a means to determine the correct percentage to use.

Affordability method

Executive judgment decides on the affordable amount that can be spent on advertising. Its use as the sole criterion for budget setting neglects the communication objectives and the market opportunity that may exist to grow sales and profits. It is unscientific in nature and cannot be applied in large companies.

Matching competition

Some companies match expenditures or use a similar percentage of sales figure as their major competitors. Matching expenditure assumes that the competition have

arrived at the correct level of expenditure and ignores market opportunities and communication objectives of the company. The competitor's objectives and strategic direction could be at variance from those of the company, making such a method questionable. Using a similar percentage of sales ratio is justified only if it can be shown to prevent costly advertising wars.

Objective and task method

The advertising budget depends on the communication objectives and costs of tasks required to achieve them. If the objective is to increase the awareness of a brand name from thirty per cent to forty per cent, the costs of developing the necessary campaign and using appropriate media (TV, posters) would be made. The total costs would represent the advertising budget. In practice, the effort to achieve the specified awareness increase may be difficult to estimate. But the method is scientific, and encourages the management to think about objectives, media exposure levels and the resulting costs.

The advertising budgeting decision is a highly political process. Finance argues for monetary caution whereas marketing personnel who view advertising as a method of long term brand building support high advertising spend.

The percentage of advertising spend would depend on several factors such as characteristics of the industry and the firm's resources. Usually a combination of methods may be used to arrive at the spend, and modifications may be required during implementation of the communication strategy.

7.5.3 Message Decisions

Advertising is not a form of art or a creative outlet. It certainly cannot function on intuition, without the backing of sufficient research. A creative advertisement is the one which increases sales. The making of an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer. A 'big idea' (one that sells more product for several years) is always the outcome of a lot of research. The research translates into the advertiser living with the product and its customers. The advertiser should fall in love with the product before he touches the story board. The sure way to kill a product is to assign it to an advertiser who does not get excited at the prospect of handling the advertising of the product. The product and its customers have to become part of the unconscious self of the advertiser.

- One should carefully understand the advertising platform before finalizing the communication message for a brand. The advertising platform primarily refers to the unique selling preposition that a marketer would like to use in order to advertise a brand.
- The preposition should be decided in the manner that it has a competitive advantage and must appear extremely important to the target audience

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and lures them to purchase a brand. Therefore, it is extremely important to understand the consumer behaviour and the motivational factors which influence a customer to buy a product. In this case, the criteria of choosing the right target customers are extremely important.

- The prime purpose of advertising is to work towards building the brand image.
- Image primarily refers to the personality that a marketer would want its brand to have. For ensuring to build the personality of a brand, a marketer uses an appropriate communication message, the right symbols that go to build this image of the brand, the activities used for advertising a brand, the product features, pricing, packaging, etc. Additionally, the image of a brand or the brand personality should be capable of assuring to the customers that the brand will extend benefits to the customer which will help the customer in taking care of his needs in a problem situation. However, in different categories of product, a different value may be attached with the brand personality.
- The brand personality has an important function of reassuring a customer. For example, the personality of a given brand which is targeted at the higher income group of customers may help in extending a personality that is indicative of sophistication which further adds to make the brand socially acceptable. In the long run, the marketer who builds the most sharply defined image of his brand wins the maximum market share.
- Standardizing advertising is a growing preoccupation of multinational companies.
- Proponents of standardization point to convergence of customers who share common experience, needs and motivations. Even while adapting advertising messages when trying to penetrate foreign markets, advertisers tend to use stereotypical images of the people in their countries or simply assume that the type of advertising message that is appropriate in the home country would be relevant in foreign markets as well.
- Multinational companies will have to reconsider their strategy of standardizing advertising messages. Whatever the commonality between the customers of different countries, regions, and cultures are, there is and always will be significant differences between them. Advertisements will have to address to these differences than ride roughshod over them. A strong brand is built by addressing itself to the differences between various segments. A brand that ignores the differences between segments provides opportunities to competitors to creep in and design brands to address these differences.

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- Sometimes, when marketers are selling products which are at par or products where superiority may be extremely insignificant or difficult to convey, it may suffice to make the message clearer, more honest and more informative than the competitor's. More persuasive communication may work better than emphasizing a 'better' product because there is really no 'better' product. Once the unique selling preposition or advertising platform is selected for a brand, it is the advertising message which then plays an important role. The message helps in now communicating this platform to the target customers. This is generally done in the form of words, symbols, logo or other possible methods. The message supported by different illustrations should however appear interactive and meaningful to the target customers.
- An advertising message translates the platform into words, symbols and illustrations which are attractive and meaningful to the target audience. The secret is to use the right appeal. A print advertisement comprises the headline, the body copy and the illustration. Some guidelines for a print advertisement are:
  - o The headline or the illustration should contain the brand name noticeably, which must subsequently be repeated as many times as possible in the advertisement. Most people who read a press advertisement read the headline but not the body copy. The company or brand name should appear in the headline otherwise the reader may not know the advertiser. The benefit should be communicated in the same line as well. Even if no more of the copy is read, the advertiser has got the message across by means of a strong headline.
  - o The message appeal (benefit) should be important to the target audience.
  - o The appeal should be specific, and evidence to support the claim should be provided.
  - o The message should be couched in the customer's language and not the language of the advertiser.
  - o The illustration can entice a reader by telling a story, using characters that the customers can identify with, emphasizing on the product or its packaging, showing results of product usage. The illustration should sell the product benefits by using pictures.
  - o In body copy, long paragraphs and sentences should be avoided; white space should be used to avoid it looking too heavy to read.
  - o Print ads should be in black/coloured letters on a white space, and not the other way around.
  - o The use of capitals and outlandish fonts obstructs reading.

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- TV commercials are of a short duration. Most communicate only one major selling appeal called the single minded proposition, which is the single most motivating and differentiating thing that can be said about the brand.
- TV advertising uses one of the three creative approaches. The benefits approach is an approach where advertising suggests a reason for the customer to buy. The second approach is subtle. No overt benefit is mentioned. The intention is to involve the viewer by telling a story. The third appeal attempts to register the brand as significant in the market and is called salience advertising. The assumption is that advertising which stands out as being different will cause brand to stand out as different.

Check Your Progress

6. What is benefits approach of TV advertising?
7. What is salience advertising?

7.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The real purpose of communication is to elicit the desired response from the target audience.
2. Demonstration centres are specially designed showrooms that allow customers to observe and try out complex products. A variant of the approach is a travelling demonstration centre in which the equipment for sale is mounted in a trailer truck. They provide a competition-free environment for selling process.
3. Telemarketing is a method of direct marketing in which a salesperson solicits prospective customers to buy products or services, either over the phone or through a subsequent face to face or web conferencing appointment scheduled during the call.
4. Personal communication is significant in industries like education, restaurants, exercise clinics, beauty salons, health care, etc.
5. Public relations involve techniques aimed at promoting a company's image or its individual products. They include press releases, press conferences, obtaining testimonials from public figures, community involvement, fundraising, and sponsorship of sporting events and other activities. All these public relation activities help a service company to increase brand awareness, brand building, reputation and credibility.
6. The benefits approach of advertising is an approach where advertising suggests a reason for the customer to buy.

7. Salience advertising attempts to register the brand as significant in the market. The assumption is that advertising which stands out as being different will cause brand to stand out as different.

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7.7 SUMMARY

- Promotion and communication hold immense importance in the service marketing mix. In the absence of a visual, physical product to be used in promotion, the promotional marketing for a service relies heavily upon the communication with the prospective customers about the services and the additional benefits.
- An effective communication program should specify its target audience, state its objective, allocate a sum, decide its message and medium, and most importantly procure feedback.
- The real purpose of communication is to elicit the desired response from the target audience. The intent of the communicator is more important to the audience. The communicator should be focused on the interests of the target audience.
- Customers go through a complex chain of mental events from the time they see or hear an advertisement until they decide to make or not make a purchase. First, what the customers saw, heard, learned, thought, or felt while exposed to the advertisement must be processed and stored in memory, and second, this stored information in customer minds must be retrieved at the crucial moment when a customer faces a purchase decision.
- Since the chain of events that marketing communications must stimulate is so complex, a wide variety of communication methods have to be used. Some of them are advertising, publicity, sponsorship and sales promotion.
- Companies have to specify when to interact with customers as well as what to say to them when they do so. Instead of sending out messages according to the marketing department schedule, companies should monitor customer activity to spot the conditions under which a communication will have a real impact.
- Emergence of new communication tools has enhanced the ability of marketers to develop a more integrated, tailored, and cost-effective communication programme.
- Communications plays a vital role in every aspect of business, be it product oriented or services oriented business. Developing two-way communication with existing customers and prospective customers is one of the best ways of promoting services.
- Communication mix plays a crucial role in connecting, engaging, tapping and building long term relationship with customer. The elements of

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communication mix can include advertising, social media communication, video advertisement, direct response like email and mail-outs, service personnel, public relations, and publicity.

- Broadcast, print media, direct marketing, online marketing, etc are some of the advertising media platforms used by service marketers. For service organizations sales promotion is very important component of their communications strategy. The sales personnel play a very vital role in service communication strategy. Personal communication is significant in industries like education, restaurants, exercise clinics, beauty salons, health care, etc.
- Public relations involve techniques aimed at promoting a company's image or its individual products. They include press releases, press conferences; obtaining testimonials from public figures, community involvement, fundraising, and sponsorship of sporting events and other activities.
- Service delivery points are another crucial aspect in service communication. Location and ambience of service outlet is very crucial from customer experience perspective.
- Corporate design includes signage, interior décor, vehicle, equipment, uniforms, stationary. These also boost the service communication.
- Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer.
- Advertisements are primarily used for positioning products in the target audience's mind. Positioning essentially involves defining what the product does and who it is meant for. Creative positioning involves development and/or reinforcement of an image or set of associations for a brand.
- Advertising that stimulates trial increases the diffusion rate of the product among the target audience. Once a clear position has been established in the minds of the target audience, the objective of advertising is to remind consumers of the brand's existence and reinforce its image.
- Advertisements can also be used to correct misconceptions which consumers hold against brands. Companies or brands that may have been tarnished due to negative publicity can be resuscitated by advertising.
- The advertising spend is a part of the total communications spend of a company. The company must therefore decide the percentage of advertising spend as one of the components of its integrated communication campaign. One should carefully understand the advertising platform before finalizing the communication message for a brand.

7.8 KEY WORDS

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- **Customer retention:** Customer retention is the ability of a company or product to retain its customers over some specified period.
- **Promotional campaign:** It refers to a series of advertisements which uses several marketing tools to share a message in order to promote a business or an event.
- **Telemarketing:** Telemarketing is a method of direct marketing in which a salesperson persuades prospective customers to buy products or services, either over the phone or through a subsequent face to face or web conferencing appointment.
- **Sales promotion:** Sales promotion is the process of persuading a potential customer to buy the product. Sales promotion is designed to be used as a short-term tactic to boost sales – it is rarely suitable as a method of building long-term customer loyalty.

7.9 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the important considerations to keep in mind while preparing communication program?
2. What is the purpose of communication?
3. Write a short note on the process of marketing communication.
4. How can advertising be used for promotion of services?
5. Write a short note on personal communications.
6. What are the different ways of positioning a brand?

Long-Answer Questions

1. Discuss promotion as an element of service marketing mix.
2. Explain the different elements of a communication mix.
3. Discuss the steps in the advertising process.
4. How can firms tap into the customer's attention while marketing their products? Discuss.
5. Analyse the important guidelines while preparing a communication message for a brand.

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7.10 FURTHER READINGS

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UNIT 8 LOCATION OF SERVICES AND CHANNELS OF DISTRIBUTION

Structure

8.0 INTRODUCTION

Service location is an important aspect of the delivery of services. Not only does an appropriate service location ensure accessibility for customers but also helps in elimination of competitors. Similarly, effective use of the different channels for distribution of service can help the service marketers to manage the demand of their core services.

In this unit, you will learn about the factors affecting the choice of distribution channel and the selection of service location. Direct distribution, franchising, and use of agents will also be delved into. Customer segmentation on the basis of demographic, geographic, psychographic and behavioural patterns paves the way for focusing on specific target customer. This will also be discussed in the unit.

8.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the factors affecting service location
- Explain the factors affecting the channels of distribution
- Discuss direct distribution, franchising and agents as service providers
- Describe the concept of customer segmentation

8.2 SERVICE LOCATION

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One of the most essential issues related to delivery of services is the location of service facility. Service location is a significant factor, because if service is not suitably located, it would be difficult for the customers to use it. The trouble caused by inappropriate location increases the cost resulting in reduction in value of service provided. The issue of location becomes more significant when the service in question is identical. The standardized services usually have to compete on the basis of spatial ease, whereas in the case of differentiated services customers are attracted on the basis of their uniqueness. Therefore, services like banks, cleaning services, fast food, repair and maintenance opt for a strategy of being located near the market.

There are two important decisions that are needed to be addressed related to service location. First is the site location. It is the macro decision involving the choice of appropriate country, region or locality. Second is the site selection that relates to the choice of the specific property or premises from which the service would be delivered. Generally, the overall marketing strategy and positioning of the service decides the location from where the service would be made available from. At times, a location decision can act as an entry barrier as occupying space at prime locations may restrict entry of competitors. As a matter of fact, many service organizations buy out space in prime locations to prevent others from entering the same market. Once a prime location is occupied, the competitors usually do not start operating in the same area. The location decision also becomes decisive in the case of flexibility, competitive positioning, demand management and focus.

8.2.1 Channels of Distribution in Service Business

Before a service marketer can reach their targeted audience in a service business, they must recognize the various mediums through which they will sell their services. Effective use of the different channels for distribution of service can help the service marketers to manage the demand of their core services. Proper selection of distribution channel can help reach various market segments, and develop selective pricing strategies according to the income of market segment members. Once a marketer realizes that channels of distribution are different for different products and situations, they can utilize various distribution channels to access new markets and also effectively tackle temporary reductions in demand.

- **Direct Sales Method:** A direct sale is the best example of distribution channels in marketing, which facilitate a service marketer to directly make contact with customers and prospects, without any intermediary. Personal visits, postal mails, online solicitation and email subscription are some of the effective ways. That way, a marketer can exercise complete control over positioning, presentation and price that can be offered to the customers.

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Direct feedback can be collected through direct interaction, which may contribute towards adjusting marketing strategy accordingly.

- **Virtual Service Distribution:** Offering virtual service is one of the most modern examples of distribution channels in services marketing. For example, services by a sales consultant could be offered through a combination of phone, email, or video conferences by making use software available on cloud platforms. Remote service delivery is another option available and is particularly useful for artists and writers who create content on a freelance basis. For example, a website content writer can create content for clients and deliver them on platforms such as Basecamp, which enable you to post content and maintain milestones without coming in direct contact with the client. Distributing services online enables to save the costs of owning an office.
- **Agents or Referrals:** Using an agent or a referral is one of the best examples that channels of distribution are different for different products. Let's take an example of a marketing guru who delivers lectures and training sessions. However, he may not be interested in the marketing effort that needs to be put in to create a client base. In that case, he may take the services professional agents who would identify clients who are looking for the services that match his talent. The agents can also double up as PR managers and can influence his positioning in the market. Industry professionals can act as referrals. For example, if one is a wedding planner, he could collaborate with a wedding photographer or a wedding gown boutique and this would benefit both the businesses.
- **Distribution Through Publication:** There is an abundance of publications that offer customized services required by service customers. In an on-demand world, for example, information dissemination can be done through a blog that amplifies and explains various services on offer. Apart from selling a service, a website also provide written and visual content that takes care of questions and concerns related to a service, or a customer ordering an e-book online. A service marketer may choose to monetize his publications or offer them as an incentive for the customers to buy a service. For example, a customer-relationship management software company may choose to offer a research paper on service marketing that prospective clients can download off the website. Once they download that research paper, they could be offered a discount on the purchase of the software, or a free 7-day trial.

Factors considered in the choice of distribution channel

Selection of ideal marketing channel is tricky. It is a strategic decision that can make or break a company. There are four factors that should usually be considered while selecting a distribution channel (direct or indirect).

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- Market characteristics: This includes number of customers, their geographic location, tastes and preferences, buying habits, buying capacity, etc.
- Product characteristics: The product cost, technicality, standardized or customized and its perishability contribute handsomely towards selecting a distribution channel.
- Competition characteristics: Marketing channel opted for by the competitors often influences distribution channel decisions. Normally, firms go for the similar distribution channel as has been used by a competitor.
- Company characteristics: Technical expertise, management competency, financial strength are factors to be considered while deciding the distribution channel

8.3 FACTORS TO BE CONSIDERED IN CHOOSING A SERVICE LOCATION

The service delivery platform is important as it determines where and how a service would be delivered. This very fact makes the location decision of service of strategic importance. Thus, deciding about the location of a service is a very important decision to be taken by the marketer. A convenient location and easy accessibility will make customers turn up to consume the service. Inconvenient location will discourage the customers as it enhances cost thereby resulting in reduced service value for them. Impact of factors which have a bearing on selection of location for services can be distinguished for different services. Hence, while choosing a service location, a service marketer has to give emphasis to the nature of business so as to identify the most relevant factors that needs to be assessed and analyzed.

The macro environmental factors such as political, environmental, social, technological, economical and legal environment have an impact on service set up and delivery; for example, certain services cannot be operational in residential areas.

Just like any location decision depends on the conclusion of the analysis done on various macro environmental factors, the service industries location also depends on the level of analysis applied: local, regional, national, or international. In the case of local, regional and national level, the location of service companies is highly interrelated to the location aspect of cities, towns, and villages and, apparently, to their economic, social, and political importance. However, once this thought is accepted, the scrutiny of the location of service industries can be handled with by taking into account two main levels:

(a) *The inter-urban level*: where focus is on the location of service activities between two cities,

(b) *The intra-urban level*: where focus is on the location of service activities within the city, more so in the case of metropolis and large cities.

Selection of service location also keeps in mind the convenience to the customers, which if not provided would have an adverse effect on both the client base as well as the market share. Thus, a service location decision is to be taken after careful analysis of all the relevant factors including also the study of trade-offs among benefit and cost.

As per the nature of service provided, there may be variance in the critical factors affecting the location of service. Some of the factors that have an influence on the choice of location are as under:

1. *Access*: Accessibility of service is a key determinant of customer support. Easiness of approachability to the service site in terms of road, traffic in the area and distance affects service use. Presence of public transport along the service line makes it easier for the prospective customers to access and use the service.
2. *Visibility*: Being visible to the customers in a shopping arcade or office area which invites significant footfall is expected to attract more customers than service outlets that are not adequately visible. Proper and continues visibility can actually remind and prompt the customers to use the service.
3. *Parking*: Unavailability of proper and safe parking facility is considered a turn-off for the customers. Parking actually has emerged as one of the important factor affecting store or service usage. Many stores and service outlets are providing parking space around the facility to absolve their customers of the tension of parking.
4. *Traffic congestion*: Places with high population density and congested market places makes shopping uncomfortable and may discourage customers to 'shop' and spend time. This also adversely affects the frequency of visit. When customers are under stress due to traffic congestion, time spent is reduced, which results in reduced impulsive buying and cross-selling.
5. *Expansion opportunities*: Customers usually get pissed off in cramped space and look to move out at the earliest opportunity. Moreover, there must be enough scope for expansion to strengthen the position currently in the case of increasing customer visit. Also, it can become a competitive compulsion at a later time.
6. *Surroundings*: The civic amenities and environment along with the facilities available in and around the service site is an important determinant of customer choice. The area around the service site must offer a complete package that the customer is looking for. This aspect is very much evident in malls where the selection of vendors is varied resulting in wide variety of services offered under one roof. It is all about the ambience.

7. *Competition*: Presence of competitors sometimes proves to be blessing in disguise. Customer traffic tends to increase due to competitors placed closely as people tend to weigh alternatives before making their purchase decision. Thus, proper interpretation of the presence of competitors is very important. At times, their presence can affect business positively.
8. *Regulatory aspects*: Various regulatory aspects, municipal restrictions and specific site regulations should be taken in to consideration while making location decisions. These regulations may pertain to pollution, area demarcation, reservation and taxes.

Besides these factors, three types of analysis are done with respect to site location. They are as follows:

1. region analysis,
2. area analysis and
3. site analysis.

1. Region analysis is the broader aspect and it is concerned with the identification of market at the regional level like cities, towns or metropolitan area. Regional variations are very much relevant as customer behavior and competitive environment differs region to region. In a diversified country like India, a regional analysis of south Indian and north Indian market will reveal significant variations in customers' buying behavior, values and motivation, demand composition, and purchasing power.
2. After regional analysis, the next step is to analyze the area and study the competitive conditions as they may vary area wise. This analysis focuses at analyzing the immediate area around the service site.
3. Site analysis is the micro-level evaluation of the factors like traffic conditions, congestion, civic amenities, footfalls, occupancy, rent, security etc.

8.4 CLASSIFICATION OF SERVICES BY LOCATION

The classification of services on the basis of location is done based on the following factors:

(a) Location may be irrelevant
(b) Services may be concentration
(c) Services may be dispersed

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Let us discuss these classifications in detail.

(a) **Location may be irrelevant:** It is to be noted that location is not an important factor for certain services. Examples of this are services like household repairs, car breakdown services and utilities. Services in these cases are performed where the customer is. It is for this reason the location of the service becomes irrelevant. However, the accessibility or availability of the service becomes an important concern for the customers.

Establishing a communications system in the design of these services is also crucial. This will pave the way for speedy response to customer queries.

(b) **Services may be concentrated:** A number of services are concentrated in certain locations. In this case, the conditions of supply and tradition are two centralizing forces. Reasons for the concentration are low intensity of demand, customer's willingness to be mobile, status associated with certain sites, etc.

(c) **Services may be dispersed:** Many services are dispersed in terms of market potential. Due to the nature of demand and the characteristics of the services provided, dispersal in the market place is necessitated. At times institutions are centralized, while operations are dispersed.

The varied patterns of service location are determined according to the type of service. The service marketers consider the following factors before making location decisions:

- The requirements of the market: The service marketer should probe if the unavailability of a convenient location will result in postponement or delay of the service. It should be accessed whether convenience of location is a critical factor in service choice.
- The service marketer should also look at the trends in the sector of service activity.
- The flexibility of the service should also be considered while determining service location
- The service marketer should also look at whether the organization is obligated to locate in convenient sites, as is in the case of public services such as healthcare.
- The service marketer should look at new systems and technologies and attempt to harness it to overcome shortcomings of previous locations.
- The marketer should also decide whether complementary services are crucial to the service location.

8.5 DIRECT DISTRIBUTION

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Distribution decisions in service industries relate to decisions regarding location, delivery and coverage. The service characteristics have direct impact on distribution decisions. The location of the service is the most important decision factor in the distribution strategy as it results in attracting the maximum number of consumers. Services provided by the likes of doctors, teachers, consultants, mechanics etc. has inseparability element involved in their services and poses a distribution limitation as they are confined to a small area market whereas services such as universities, restaurants, and hospitals requires the customer to go to the service location rather than vice-versa.

There are primarily three decision variables that are needed to be addressed.

The first decision variable associated with planning appropriate distribution strategy is regarding the location of the service. One need to address the following questions to arrive at the right decision:

(i) To what extent is the location of the service important to the customers? Will a customer postpone a purchase decision or shift to a competitor owing to an inconvenient location?

(ii) Is the service, technology-driven or customer-driven? How flexible is the service? Can the location of equipment and people be changed without any quality loss?

(iii) How relevant are complementary services to the location decision? Will the existence and availability of complementary products or services in a location influence market share? Garages and mechanic shops located next to petrol stations are examples of complementary location decision.

The second decision variable is about selection of distribution channel i.e. direct sales or through intermediaries. While, direct sales is the preferred option in case of services which are inseparable from the performer, middlemen can be involved in services such as airlines, hotels, life insurance, property, etc.

The third decision variable is to devise a strategy to serve maximum number of customers in the most cost-effective manner.

Methods of Services Distribution

Distribution in services can be broadly classified into two categories:

A. Direct sales (distribution)

B. Sales via intermediaries.

The various channels adopted for direct distribution can be (i) direct sales through electronic channels; (ii) Franchising; and (iii) Quasi Retailing.

Of the above, sales through electronic channel may be considered as direct distribution in real terms, as services can be directly delivered by the service performer. The only service distributor where direct human interaction is not required is electronic channel. Only a predesigned service (almost always information, education, entertainment, financial services and many more) is required to be delivered through electronic medium. Electronic channels not only overcome problems associated with service inseparability, it also allows standardization of services previously missing from most of the services. Computer, interactive multimedia, television, and mobiles are all forms of electronic channels.

Advent of the internet has made it possible for the service marketers to reach customers who were earlier out of bounds through electronic interchange. Potential customers who have access to internet can easily reach out to the service provider by visiting the related website or through emails. The electronic channel plays the role of interface between the service provider and the customer. Even goods companies are considering electronic channels as viable alternatives. Booking orders are done through the internet and delivery is done through conventional physical distribution.

Electronic channel offers consistency in delivery. Since, delivery through electronic channel is devoid of human involvement and the service offered is standardized, the delivery seems to be highly consistent across scores of contacts. The discrepancy that may otherwise creep in the delivery system due to the involvement of human element is being eliminated in the electronic transfer of services. Moreover, cost of delivery is reduced manifolds. Furthermore, electronic channels have improved the availability of services and customer convenience.

Making services available electronically

Inseparability between the creator and the service provider is the main obstacle in the distribution of services. Services are rooted in people or equipment that are typically accumulated together in service factory. In the case of banks, educational institutions, hospitals, people have to move to the service factory to experience the service whereas it is the other way round for services like gardening, pest control or online classrooms.

Nowadays, with the advancement and higher usage of information and telecommunication technology, people can now enjoy services right at their doorstep where it is demanded. Many services are rapidly embracing the electronic channel both to build new service verticals and to expand availability. Banking, insurance, stock trading, retailing, medical transcription, business process outsourcing, and auctions and are examples of few of the services extensively utilizing the electronic channels. These services can be used by the customers even without moving to the service outlets.

We may take the example of ICICI Bank, who in spite of entering the market late, created an edge over its competitors by using new model of service

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creation and delivery. Historically, banking was always confined to branch based system which meant that success strategy focused on service location factor. While other banks concentrated on branch location, ICICI took IT-driven approach to surge ahead of its competitors. ICICI Bank upgraded itself technologically to reach and serve its clients at their doorstep. Banking services were provided through internet, telephone and specific workforce were employed to meet customers at the point of demand. With time, banking sector worldwide has resorted to technology use and services are rendered in the following ways:

(i) Internet banking
(ii) ATM
(iii) Phone banking

The main reason for the success of services delivery through electronic channel is the value. Today, customers are short of time and energy but surplus on money. For them, saving time and energy matters the most and hence delivery of services through electronic channels at their place of choice enhances value of the service provided and make them feel placed at the positive side of the benefit-cost equation. The time and psychological discomfort saved have become crucial contributors of enhanced customer value.

Further, electronic channels have made it possible for the customers to avail variety of services like online reservation system, online communities and social media, travel and tourism services, online buying, bidding sites, stock trading, etc.

8.6 FRANCHISING

As per the definition for franchising given by the International Franchise Association (IFA), a franchise is: 'A contractual relationship between the franchisor and the franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format or procedure owned by or controlled by the franchisor, and in which the franchisee has made or will make a substantial capital investment in his business from his own resources'. In other words, Franchising is an ongoing association in which a franchisor (one party) provides a licensed right to the franchisee (another party) to sell its products or services, exploit its brand, trade mark or product and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration in the form of lump-sum payment or a royalty.

Franchising is widely believed to have originated with Isaac Singer, the inventor of sewing machine in the 1850s. However, the decisive point for franchising came in the 1950s. In 1954, Ray Kroc, a businessman from Illinois, USA saw the potential in franchising a successful southern California hamburger stand owned by a couple of brothers. This restaurant chain, McDonald's, is perhaps the most

well-known example of franchising in the world.

Increased practice of franchising has extensively contributed towards the growth of services by pushing aside the restraints of limited distribution. Creation of parallel services delivery channels by partnering others has enabled to reach markets that were otherwise out of bounds for service marketer. It is a known fact that services are location dependent due to the inseparability element of service product and service provider. Franchising has gained relevance since it makes multi-site operations possible by offering the services by another party under a contractual obligation.

Franchise Agreement

Franchising is a contractual agreement between the service initiator (franchisor) and the other party (franchisee) which gives the later a number of rights including the right to use brand name, operations know-how, technology and other guidance and training.

A franchising agreement basically covers three aspects. Firstly, the trade or service mark of the franchisor is allowed to be used by the franchisee for a fee. Secondly, a lump-sum amount which covers rent, equipment and operational expenses is invested by the franchisee to start the operations. Thirdly, the core aspect of the agreement is sharing the operational know-how with the franchisee.

When is Franchising required?

Franchising is a viable option for those service firms who have achieved high level of standardization in their operations. The service firms that have prepared their processes along the technical quality route and focus on standardization are best fit for franchise-based distribution. Furthermore, apart from standardization of operations which is very critical, human resource and marketing operations are also needed to be standardized. The franchise model is more effective in those services where the participants can be properly trained to provide service consistency and are able to perform repetitive work uniformly.

Pre-requisites of Franchising

Before entering into franchising agreement, both the concerned parties should analyze a franchise on the basis of certain information acquired through the following:

- Discussion with the franchisor.
- Interviewing existing franchisees.
- Evaluation of the franchise agreement.
- Examination of the franchise's financial statements and stability.
- Survey of the trade-area.
- List of current franchisees.

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- Media reports about the franchise.

Analysis of each issue listed above helps the marketer to understand and identify the following:

- The Profitability position of the franchisor and current franchisees.
- Management of the franchise
- Level of National adaptability.
- USP of the Franchise
- The financial performance and credibility
- Exposure of the franchisor
- Risk involved in the investment
- Degree of integrity and level of commitment on the part of the franchisor
- Effectiveness of the franchisor's monitoring system

Types of Franchises

There are three main types of franchises:

1. First, where the franchisor licenses a business format, operating system, and trademark rights to its franchisees.
2. The second type is about product distribution. The franchisor grants the franchisee permission to sell or distribute a product using their logo, trademarks and trade name but is not operationally involved to run the business.
3. The third type is manufacturing, where the franchisor permits the franchisee to manufacture their products (e.g. clothing) and sell them under its trademarks.

Functioning of Franchising

In franchising, the agreement entered into permits the franchisee to use the franchisor's brand name and sell its products or services against a payment to the franchisor that also covers the supply of its products, services, technological know-how, brand name and trade secrets as well as providing training and assistance.

The franchisee may well act as a branch of the parent company and sell these products and services or it may even use franchising rights by selling these products under its own business venture.

Franchising rights can be granted one or several individuals or firms. Incidentally, if it is granted to just one person, he becomes the exclusive franchisee within a specific geographical area.

Advantages and Disadvantages of Franchising

Franchising poses advantages and disadvantages to both franchisors and franchisees. These have been discussed below:

Advantages to Franchisors

The franchisors are benefited by franchising in the following ways:

- It provides the best growth opportunity which is not otherwise possible through one-outlet model taking without financial risk.
- Control over the quality of services can be exercised through the franchise agreement.
- Probability of image loss is minimized because of consistent service guaranteed by the agreement.
- It provides an opportunity to gain knowledge about the local market.

Advantages to Franchisees

The franchisees are benefited by franchising in the following ways:

- The franchisee gets an opportunity to encash the benefits of the pre-established brand name of the franchisor. This enhances the success probability.
- Not required to spend money on training and assistance as it is borne by the franchisor.
- May get exclusive rights to sell the franchisor's products within an area.
- Additional benefit of knowing the business techniques and trade secrets of established brands.
- Mobilizing funds get easier due to the franchise agreement.

Disadvantages for Franchisors

The disadvantages for franchisors by franchising are given below:

- The franchisor does not have direct control over the quality standards and the franchisees deviation from the prescribed blueprint may result in image loss.
- Franchising enhances the chance of leakage of the 'secret formula' by the franchisee to its rivals.
- Getting the franchisee motivation is a difficult task. The franchisee's agenda might not match with that of the franchisor at all times.

Disadvantages for Franchisees

The disadvantages for franchisees by franchising are given below:

- Franchisees are always needed to adhere to policies and conditions of the franchisor and hence do not have complete control over the business.
- It may even have to share his profits with the franchisor apart from the royalty.

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Check Your Progress

1. Give an example of virtual service distribution.
2. What is site analysis?
3. What are the methods of distribution in services?
4. What are the different forms of electronic channels?
5. What are the benefits of franchising?
6. What are the advantages of franchising to franchisers?
7. What are the disadvantages of franchising to franchisees?

8.7 AGENTS

In the present day scenario, several service providers are changing their service model and delivering the service with help of intermediaries. The indirect distribution of service involves two levels of the marketers, one principal service provider, two, service deliverer or the agent.

The originator of the service product is the principal and the deliverer acts as the agent to the principal, who owns the original service concept.

There are several services which due to their nature cannot be distributed freely and through the intermediaries. Say for example, a surgeon cannot create his intermediary or a teacher cannot rely on agent to deliver the service. Still, certain services need to address local issues, or need to reach the far wide distributed customers. Such services, if they can be customized, can easily use the intermediaries or agents or franchisors. Certain services with help of advanced technology can reach the larger customer base with help of agents.

For example, an airline need not operate just from the ticketing counter at the airport but can have several travel agents at diverse locations to do the ticket bookings for them. Similar is the case for hotel bookings. Even the tourism services rely heavily on travel agencies.

Similarly, the insurance sector relies heavily on the role played by the insurance agents, who form the back bone of the insurance service sector.

These agents not only increase the reach of the service provider to a large customer base but also increase the reliability dimension of the service provider as in most of the cases the agents are local people serving the local population. They also make the service delivery process seamless and smooth. They can easily be monitored and thus an effective service can be built up.

The disadvantage of using these indirect channels or agents is very obviously stated as loss of control and territory conflicts.

Sometimes there are cases of customer cheating or fraud, which the company needs to address very carefully. Sometimes a particular agent may serve more than one service principal and thus dilutes the entire service system.

With the advent of technology the role of intermediaries or agents can gradually be eliminated or monitored in real time. Service marketers need to create service systems in such a manner that they can increase the reach without diluting the control over their service.

8.8 CUSTOMER SEGMENTATION

Market segmentation is the procedure of separating a broad customer base or industry, usually consisting of current and future customers, into sub-groups of clients (recognized as segments) based on some type of common characteristics for the purpose of suitably serving each group efficiently and effectively.

Why segmentation?

Most of the products launched miss revenue targets because the marketers fail to identify the true requirement of the customers and rather follow a universal approach for all. Today, customers expect personalized attention towards them and hence this approach is the most effective way in customer creation and retention. Customers say that personalization has had a great impact on their purchasing behavior. Even the marketers have noticed visible enhancement in their business with personalization. All these observations make customer segmentation even more relevant.

The objective of customer segmentation is to classify those segments that are likely to be the most lucrative or have maximum growth potential - paving way to focus strategically on the identified segments to make them target markets.

Customer segmentation can benefit a brand:

- To provide superior customer service.
- To formulate and execute better retention strategy, and
- Towards sensible advertisement targeting.
- To create better customer interaction.
- To assist in test pricing options.
- To improve existing products, develop new product or service opportunities.
- To focus on the most beneficial clients.

Segmenting customers

Usually, B2B sellers and B2C businesses take different approaches to segment customers. Business-to-Business marketers may consider the larger picture like

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businesses or countries while business-to-consumer marketers might take a more personalized approach and opt for segmentation on the basis of demography, consumer behaviour, lifestyle, and other aspects.

Marketers often use various bases for segmenting customers which focuses on variables like:

- *Measurable,* that reflects on the degree to which executives are able to categorize specialized groups within the market,
- *Sustainability*, that gives an idea whether the identified group is of large enough size (in numbers and/or purchasing power) to rake up profit,
- *Assessibility,* signifies the possibility of customer segments coverage with respect to promotion and distribution,
- *Responsivenes,* showing the extent to which the targeted clientele will respond to the offers made to them, and
- *Actionable,* is when the identified segments provide cues that assist in formulating strategies and take business decisions.

Once enough data is collected on the potential customers, the procedure of dividing the customers into various segments on the basis of specific characteristics begins. Segmentation bases on which they can be divided into is demographic, geographic, psychographic and behavioural.

1. *Demographic Segmentation*: It is based on population characteristics like age, generation, gender, education, income, occupation, marital status, socio-economic status, family size, family life-stage, ethnicity, religion. Practically, for analysis, almost all demographic segmentation employs a mixture of demographic variables for.
2. *Geographic Segmentation*: involves grouping customers broadly by continents, country, state, region, climate, market size or narrowly by population density, neighborhoods or postal codes. One also needs to adapt messages according to various geographic segments keeping in mind the local culture. It assumes that customers with alike demographic profiles will show similar purchasing behaviour and that these uniqueness will decode parallel product/brand preferences. Geographic segmentation is useful in direct marketing drives to spot areas that are potential candidates for personal selling, direct mailing or letter-box distribution. Marketers also use geo-cluster approach, which is a permutation of geographic data with demographic data to create a more pin-pointed and detailed profile of the customers. Geo-cluster segmentation is extensively used by Government and public sector service departments such as urban planning, health authorities, police, legal, telecommunications and public utility services such as water boards. Geographic segmentation is considered the first stride in international marketing. Tourism industry time and again segment international tourists on the basis of their country of origin.

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3. *Psychographic Segmentation*: It is also referred to as psychometric, lifestyle or customer-journey based segmentation and it considers the activities, interests, and opinions (AIOs) of customers. As a marketer, in addition to understanding the buyer preferences and interests, one also needs to know at which stage of the buying process they are in. For example, segments such as consumers who have visited an online store but have not made a purchase or consumers with only one purchase history in the last twelve months or no buying in the last twelve months can be created.
4. *Behavioural Segmentation*: It involves segmenting customers based on their behaviour while interacting with a brand. The behavioural variables include purchase / usage occasion, benefit-sought, user purchase frequency, user status, loyalty status, adopter status, attitude to service, buyer readiness, and digital data from supermarkets.

Segmentation in the Services Market

The service sector tends to behave differently from the product industry, and that is why we precisely need to address the segmentation issue in the services sector separately. Apart from the usual segmentation categories discussed earlier, we will now emphasize on segmentation in services sector.

Some of the commonly used variables used for segmentation in service industry are:

- Type: Institutional or individual
- Age group: Kids/Teens/Young adults/Middle-aged/Old
- Gender
- Language
- Income level
- Preferences: Interested in in-house activities or out-bound job
- Ethnic background
- Profession: Self-employed or salaried
- Attitude towards risk: Risk-taking or risk-averse
- Rural or Urban

In addition to the above, service relevant segmentation can also be done.

Institutional buying is very common in service industry. The institutional buyers can be segmented on the basis of variables like:

1. Volume of purchase (big buyer or small buyer based on revenues for a given period).
2. Ease of doing business (amount of paperwork involved).
3. Decision-making authority (centralized or decentralized, one person or committees).

4. Price sensitive or quality seeker.
5. Technology driven / Technical awareness.
6. End user or intermediary.

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Using Customer Segmentation

All businesses irrespective of size or industry, offering product or service and selling online or in person, can use customer segmentation. It commences with assembling and analyzing data and ends with acting on the information gathered in a way that is suitable and effective.

Check Your Progress

8. What are the disadvantages of using indirect channels such as agents?
9. State two ways in which customer segmentation benefit a brand.
10. What is psychographic segmentation?

8.9 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Service by a sales consultant is an example of virtual service distribution. These services can be offered through a combination of phone, email, or video conferences by making use software available on cloud platforms.
2. Site analysis is the micro-level evaluation of the factors like traffic conditions, congestion, civic amenities, footfalls, occupancy, rent, security, etc.
3. Distribution in services can be broadly classified into two categories: Direct sales (distribution), and Sales via intermediaries.
4. Computer, interactive multimedia, television, and mobiles are all forms of electronic channels.
5. Increased practice of franchising has extensively contributed towards the growth of services by pushing aside the restraints of limited distribution. Creation of parallel services delivery channels by partnering others has enabled to reach markets that were otherwise out of bounds for service marketers.
6. Franchisors are benefited by franchising in the following ways:
   - Control over the quality of services can be exercised through the franchise agreement.
   - Probability of image loss is minimized because of consistent service guaranteed by the agreement.

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7. The disadvantages for franchisees by franchising are given below:
   - Franchisees are always needed to adhere to policies and conditions of the franchisor and hence do not have complete control over the business.
   - It may even have to share his profits with the franchisor apart from the royalty.
8. The disadvantage of using these indirect channels or agents is very obviously stated as loss of control and territory conflicts. Sometimes there are cases of customer cheating or fraud, which the company needs to address very carefully. Sometimes a particular agent may serve more than one service principal and thus dilutes the entire service system.
9. Customer segmentation can help a brand provide superior customer service, and formulate and execute better retention strategy.
10. Also referred to as psychometric, lifestyle or customer-journey based segmentation, psychographic segmentation considers the activities, interests, and opinions (AIOs) of customers.

8.10 SUMMARY

- One of the most essential issues related to delivery of services is the location of service facility. Service location is a significant factor, because if service is not suitably located, it would be difficult for the customers to use it.
- There are two important decisions that are needed to be addressed related to service location. First is the site location. It is the macro decision involving the choice of appropriate country, region or locality. Second is the site selection that relates to the choice of the specific property or premises from which the service would be delivered.
- Before a service marketer can reach their targeted audience in a service business, they must recognize the various mediums through which they will sell their services.
- Direct sales method facilitates a service marketer to directly make contact with customers and prospects, without any intermediary.
- Offering virtual service is one of the most modern examples of distribution channels in services marketing. For example, services by a sales consultant could be offered through a combination of phone, email, or video conferences by making use software available on cloud platforms.
- Other examples of distribution channels in services marketing are using agents or referrals and distribution through publication.
- Market characteristics, product characteristics, competition characteristics and company characteristics are some of the factors affecting the choice of distribution channel.

- Access, visibility, parking, traffic congestion, expansion opportunities, competitors and surroundings are some of the factors affecting the choice of service location.
- The classification of services on the basis of location is done based on the following factors:
  - o Location may be irrelevant
  - o Services may be concentration
  - o Services may be dispersed
- Region analysis, area analysis, and site analysis is also done before deciding the service location.
- Distribution in services can be broadly classified into two categories: direct sales (distribution), and sales via intermediaries.
- The various channels adopted for direct distribution can be (i) direct sales through electronic channel, (ii) franchising, and (iii) quasi retailing.
- Of the above, sales through electronic channel may be considered as direct distribution in real terms, as services can be directly delivered by the service performer. The only service distributor where direct human interaction is not required is electronic channel
- Electronic channel offers consistency in delivery. Since, delivery through electronic channel is devoid of human involvement and the service offered is standardized, the delivery seems to be highly consistent across scores of contacts.
- Franchising is an ongoing association in which a franchisor (one party) provides a licensed right to the franchisee (another party) to sell its products or services, exploit its brand, trade mark or product and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration in the form of lump-sum payment or a royalty.
- Franchising is a contractual agreement between the service initiator (franchisor) and the other party (franchisee) which gives the later a number of rights including the right to use brand name, operations know-how, technology and other guidance and training.
- The indirect distribution of service involves two levels of the marketers, one principal service provider, two, service deliverer or the agent. The originator of the service product is the principal and the deliverer acts as the agent to the principal, who owns the original service concept.
- These agents not only increase the reach of the service provider to a large customer base but also increase the reliability dimension of the service provider as in most of the cases the agents are local people serving the local population.

- Market segmentation is the procedure of separating a broad customer base or industry, usually consisting of current and future customers, into sub-groups of clients (recognized as segments) based on some type of common characteristics for the purpose of suitably serving each group efficiently and effectively.
- Customer segmentation is done on demographic, geographic, psychographic and behavioural basis.

8.11 KEY WORDS

- **Direct sales method:** A direct sale is the best example of distribution channels in marketing, which facilitate a service marketer to directly make contact with customers and prospects, without any intermediary. Personal visits, postal mails, online solicitation and email subscription are some of the effective ways.
- **Referral:** Referrals are used for promoting products or services to new customers; they usually employ word of mouth strategy.
- **Franchising:** Franchising is an ongoing association in which a franchisor (one party) provides a licensed right to the franchisee (another party) to sell its products or services, exploit its brand, trade mark or product and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration in the form of lump-sum payment or a royalty.
- **Behavioural segmentation**: It involves segmenting customers based on their behaviour while interacting with a brand.

8.12 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the examples of distribution channels in marketing?
2. What is virtual service distribution?
3. What are the merits of using electronic channels?
4. What are the different types of franchises?
5. What is customer segmentation?
6. State the ways of segmenting institutional buyers.

Long-Answer Questions

1. Discuss the factors affecting the choice of distribution channel.
2. Explain the factors affecting the choice of service location.

3. Delineate the advantages and disadvantages of franchising.
4. Discuss the need for customer segmentation and the basis on which it is done.

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UNIT 9 PEOPLE IN SERVICES MARKETING MIX

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Structure

9.0 INTRODUCTION

In this unit, you will learn about the role of people in the service marketing mix. Customers are a prominent element of the service business, particularly as a co-producer, a contributor to service quality and even that of a competitor.

The unit will delve into the different roles of a consumer. Furthermore, the role of the service personnel in the service production process will also be discussed. Also significant in the progress of an organization are the frontline employees and those who support them. The unit will also discuss service culture and the elements of a healthy service culture.

9.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the role of people in the service marketing mix
- Discuss the role of service personnel and frontline employees
- Describe the elements of healthy service culture

9.2 ROLE OF PEOPLE IN SERVICE MARKETING MIX

It is important to understand the process by which customers evaluate the total service offering. Customers initially assess the core service for its ability to satisfy their substantive needs for a service such as need for sense of control, status, which are translated into a number of service attributes. These attributes may be security of the customer and his property, consistency, attitude, completeness or

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extent of service range, environment, availability and timing i.e., length of time required for, and pace of performance of the service. Service providers compete by producing service offerings that contain a permutation of these attributes that meets customers' secondary needs better than their competitors.

Customer perception and service attributes

Faced with various attributes, understanding of the processes by which customers evaluate each bundle of attributes is required. Judgements can be made in three ways:

(i) A consumer may make a judgment based on an overpowering attribute which is of greater importance in a given situation.

(ii) Judgement may be made on the basis of minimum levels of certain attributes, but the final judgement is based on existence of a single specific attribute.

(iii) The consumer may decide upon alternatives using a weighted average of attributes.

But customers are often not consciously aware of what their needs are. In some respects, the service product is an idea and as such the need for a service is often unrecognized by the buyer until he or she becomes aware of its availability. Even if consumers are aware of their needs, they have difficulty in expressing their desires to service providers. Customer needs are unlikely to remain constant as individual customers and their marketing environments change.

Role played by customer

According to Teboul, the feature that lies at the core of service is the interface between the producer and the consumer. A service is characterized by its simultaneous production and consumption. This entails the physical presence of the customer at the time of production or delivery of the service. Based on the nature of this interface, a customer may assume various roles, viz, that of being a co-producer, a contributor to service quality and even that of a competitor.

(a) **Customers as co-producers:** The valuable inputs by the customers not only influence the quality of the service produced but also affects the overall generation of output. For instance, in an IT consulting firm, if the clients are articulate about their problems, cooperate with the service providers by furnishing timely information and clearly state what they desire, it takes less time to attend to their problems and fix them.

It not only ensures better quality of the service but also reduces the time lost in waiting for information or redoing a service, thereby, increasing the overall productivity. While the role of customers in the production of service does increase the quality and quantity generation, it also poses several questions regarding their involvement.

Organizations raise concerns over the degree of uncertainty that customers bring to the production process, and hence suggest that their role be limited

to the delivery process. Factors like timing of the customers' demands, unpredictability of their attitudes, moods and actions bring certain level of uncertainty to the production process. Hence, some firms prefer to perform the part of the production process that does not have anything to do with the customers, away from them. The less direct contact with the customers will imply less scope for uncertainty in the production process.

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However, the other view that counters this belief states that customers must be seen as 'partial employees'. Their participation in the production service must be taken as an opportunity to maximize their contribution to the overall creation of service. Virgin airlines for example cater to different flying experiences for different markets. In the case of students or backpackers, a no-frills flight is emphasized. In the case of business travellers, regularity of flights is stressed and lastly for tourists, a combination of in-flight and post-flight services is of paramount importance.

(b) **Customers as contributors to service quality and satisfaction:** Another important role that the customers play in the production process is to contribute to their own satisfaction with the quality of the service produced. The increased productivity of a service firm is not really the customers' foremost concern. Their participation must lead to the fulfilment of their own needs. In certain services like healthcare, personal fitness, education, etc, an effective participation on the part of customers leads to the realization of their own needs.

Researches show that the customers' satisfaction with the quality of the service increases with their level of participation. Customers contribute to the quality of the service delivery by taking on the role of active participant. They ask questions, and notify the service providers in case of a complaint, thereby, taking responsibility of their own satisfaction with the service. In a healthcare service, the patient communicates his or her medical problems to the doctor, complies with the doctor's prescription and shares his or her inputs on any improvement.

(c) **Customers as competitors:** If customers can be viewed as partial employees, in the sense that they can partially perform the service for themselves, then they may also be seen as potential competitors. In the role of competitors, customers are believed to be capable of performing the entire service for themselves, hence, doing away with the provider altogether. Thus, customers have the option of internal exchange (producing a service internally for themselves) or external exchange (outsourcing it to a service firm). For example, they may decide to produce services like childcare, car maintenance, etc., internally or contract externally. Thus, customers can assume roles of not only productive resources and co-producers of quality but also as potential competitors to the service firms, cutting into their share of service process.

9.3 SERVICE PERSONNEL /CONTACT PERSONNEL

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Human attributes are embedded in the service offer in three ways:

- Most service-production processes require the service organization's own personnel to provide significant inputs to the service production process, both at the front-line point of delivery and in those parts of the production process that are relatively removed from the final consumer. In the case of many one-to-one personal services, the service provider's own personnel are the most important element of the total service offer.
- Many service processes require the active involvement of the consumer of the service and the consumer is involved as the co-producer of the service. At its simplest, consumers present themselves or their objects to the service provider in order for the service to be provided (Driving school, doctor).
- Others who simultaneously consume a mass-produced service can influence the benefits that an individual receives from the service. The characteristics of other users of a service can affect the image of the service in much the same way as owners of certain brands of goods can lend them some degree of snob appeal. A night club can build an exclusive image on account of the high spending, high profit users who patronise it.The presence of other consumers in the service production delivery process means that the final quality of the service that any customer receives is dependent on theperformance of other consumers. Often fellow consumers have an important role to play in enhancing the quality of the service offering, as where a full house in a theatre creates an ambience for all customers to join or where the presence of a large numberof other exhibitors at an exhibition can make the whole event more attractive to potential customers. On other occasions, consumers can contribute negatively to the service production process, as where rowdy behaviour in a pub or people smoking in a restaurant detracts from the enjoyment of an event for other customers.

For most services, employees constitute a very important component of service offering.The management of employees, in terms of recruiting the best personnel and training, motivating, and rewarding becomes crucial in influencing the quality of service output. Service management brings together the principles of marketing, operations, and Human Resource Management (HRM) in which it can sometimes be difficult and undesirable to draw distinctions between the three approaches. Methods to improve the service provided by staff of a fast food restaurant can be seen as a problem of marketing (the need to analyse and respond to customer needs for such items as speed and cleanliness), or of operations management (scheduling work in a manner which reduces bottlenecks) or of HRM (selecting and motivating so that customers deliver a specified standard of service).

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The Importance of Personnel to the Service Offering

For some businesses, the employees are the business. If they are taken away, the organization is left with very few assets with which it can gain competitive advantage in meeting customer needs. HRM is central to the activities of the organization and it cannot be seen as a separate activity. The importance attached to HRM within any organization can be gauged by examining two aspects of personnel:

- The proportion of total costs which are represented by personnel costs
- The importance of personnel encounters with customers within the service offer

For HRM, the most critical group of services is found where personnel accounts for a high proportion of total costs and forms an important part of the service offering perceived by the consumer (hairdressing). In other cases, personnel costs may be a small proportion of total costs but can represent key individuals who can significantly affect consumer'sperceptions of a service. The human input to services can be highly variable, resulting in variability in output. Many service organizations have sought to replace personnel with equipment-based inputs, often resulting in fewer but more highly-trained personnel being required.

9.4 ROLE OF FRONTLINE EMPLOYEES: HIRING THE RIGHT PEOPLE

A very famous saying about service organization is that in a service organization, if you are not serving the customer, you had better be serving someone who is. People—frontline employees and also those people who support them from behind the curtains—are necessary for the progress of any service organization.

In a lot of situations, the employee to be contacted is the service—as there is nothing else other than that. For example, in a lot of private and expert activities (such as cutting hair, body trainer, baby care, hygiene/preservation, transport services, psychoanalysis and law services) a single person who is contacted makes available all the facilities individually. So, investing in that particular employee for improving the services equals making a direct attempt in trying to improve the manufactured product.

Even though the employee at a particular point of time is not able to carry out the work completely by himself/herself, he/she might still represent the company in client's eyes. All the workers of a law firm or hospital—from the qualified professionals who offer their services to receptionists and helpers—depict the face of the firm to the client and anything these people do and say influences the opinions which people have about the firm. For example, the automobile manufacturing company, Audi, understands the distinction of its people in depicting and strengthening the brand image of the organization.

So, as a consequence, Audi hires only those people at all stages whose attitude matches up to brand Audi. The brand image is not just constructed and

reinforced by the vehicles through promotion; it is also the collective responsibility of the people who are working at Audi. Even when the employees are not at work, they represent the company they stand for. If they behave incompetently or make discourteous comments about or to clients, then the client's opinion about the firm would change in a negative way.

As the firm's first employees to be contacted, represent its face and, most of the times, directly influence customer's decision, so, they also perform the role of marketers. In a metaphorical stance, they physically embody the commodity and personify themselves as the talking billboards, if seen from a promotional viewpoint. Few of them might even act out the conventional ways like tellers of the bank are generally called for cross-selling the product of bank, which is different from the usual role that the teller performs.

Empowerment and enfranchisement of service employees

The methods which an organization uses to encourage participation amongst its employees are influenced by the type of person it employs and the extent of autonomy (the extent to which employees are able to control their own work processes or empowerment) and discretion (the degree of independent thinking they can exercise in performing their work or enfranchisement). Participation involves giving employees some direct personal stake in overall business objectives of their organization. If management strategy is effective, there should be little difference between the aims of an organization's business plan and those of employees.

Management strategy should seek to make the two congruent by facilitating increased participation. Participation by employees means the inclusion of non-managerial employees in an organization's decision-making process. Organization should secure greater employee involvement by making employee's objective congruent with those of the whole organization. Increased participation is brought about by a combination of consultation and communication methods and team briefings:

1. Open-door policies encourage employees to air their grievances and make suggestions directly to their superiors. The aim is to make management accessible and employee-friendly. Employees should feel that they do have a say in managerial matters. Management must appear to be open and interested in employee relations.
2. Team briefings are a system of communication where a leader of a group provides members with management-derived information. The idea is to encourage commitment and identification. They are particularly useful in times of organizational change though they can be held regularly to cover items as competitive progress, changes in policy and points of future action.
3. All employees and functional areas should regard themselves as providers and customers of other departments. The aim is to improve quality and/or reduce production or internal transaction costs.

Employees are encouraged to act outside of what they may see as narrowly defined, to appreciate the impact that their actions will have on the total service perceptions of the organization's customers.

The pattern of ownership of an organization influences the level of consent and participation. Where the workforce owns a significant share of a business, there should be less cause for 'us and them' attitudes to develop between the management and workforce. Many labour intensive service organizations have significant worker shareholders and they can outperform more conventionally owned organizations.

For example, Nestle India conducted a course which was made compulsory for all employees to attend. This course was focused on improving the skills and responsibility of Nestle employees. As a result, employees felt valued which led them to reduce waste, accidents, unplanned stoppages, quality defects and other consumer complaints. The NCE (Nestle Continuous Excellence) program at Nanjangud factory in India has been successful in reducing laminate waste by 35 per cent and powered waste by 87 per cent.

9.5 SERVICE CULTURE

Service simply means an action that a person performs for others. It is an action or doing work for someone that does not involve transfer of physical goods. Thus, the very essence of service lies in the fact that it is something which is customer-centric. On the other hand, 'culture' means realities of behaviour of the employees as opposed to the set of rules and regulations formulated. Thus, to best serve one's customers, an organization must have a very consequential combination of service and culture. Providing the best of customer service is highly sought for and it can only be served if an organization has a sound service culture.

Service Culture Explained

Service culture is the way a company thinks about its customers, its interaction with them and how they are served. It is an organizational culture where the employees in unison identify ways about providing outstanding service, decides on various acts to provide it, and try to understand why they do it. Service culture exists when organizations inspire the employees to take a customer-centric approach while performing their duties. In a nut shell, service culture is one where employees are possessed with customer service.

Characteristics / Elements of a healthy service culture

To develop an effective service culture, it is very crucial to make the company a great place to work. This takes time, but the following actions can help reach the goal:

1. *Respect*: Leaders' behaviour always has a contagious effect on their employees and hence their performance. Respect in the place of work is of two types: owed respect and earned respect. All employees irrespective of status or performance should be given Owed respect. It's basic human

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courtesy. Earned respect is recognition of the employee's qualities, achievements and behaviour.

2. *Empowerment*: An important aspect of employee empowerment is to allow them space and freedom to think independently; in the process, if required, occasionally bend the rules and make critical calls. This way employee are more likely to walk away satisfied resulting in better involvement and belongingness.
3. *Ritualism*: Habits and rituals unite a team's service approach. This helps the team to dish out services uniformly and the customers are on familiar terms with what to expect when they contact the company.
4. *Common language*: A common language makes it easier for the service team to convince the customers by keeping the conversation pleasant and crisp, which may lead to quicker favourable decision. This makes service culture appear productive and practical.
5. *Friendliness*: Friendliness is one of the basic ideologies of good customer service. A sizeable chunk of buyers are ready to shell out more for a better customer experience, so it does pay to be nice and kind. Services should be delivered through polished language, politeness, etiquette, thoughtfulness and consideration.
6. *Celebrations*: Rave feedbacks, five-star reviews from customers, overwhelming monthly goals should always be celebrated. Appreciation leads to greater happiness that creates better service culture.
7. *Continuous feedback and transparency*: Today, more transparent and ethical approach is invited at workplaces. Many business houses promote truthfulness, transparency and reliability. Continuous customer feedback is useful for growth; it helps to identify areas that need improvement and at the same time make customers feel elated as they feel like their views are relevant and they are party to growth. As far as employees are concerned, trust and better relationship is built up through direct feedbacks.
8. *Shared responsibility*: There is no scope for 'not-my-job' attitude in a constructive service culture environment. Everybody should be committed towards the common goal. If a service team is exhausted, it is expected that other teams or individuals will jump in to assist them irrespective of their own job title.
9. *Respecting customer's wallet*: Delivering maximum value for money and making an attempt to save money for the customer even while staying within the allowable price structure will earn the customer's trust and loyalty.
10. *Respect the customer's time*: Keep away from wasting customer's time with something that does not attract their attention.
11. *Professionalism*: Service culture at a workplace should be such that professionalism should reflect in your proficiency, moral values, appearance and professional conduct.

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12. *Relationships over efficiency*: In a customer-centric approach, customer relationship produces better result than efficiency. Overemphasis on efficiency often results in poor standard of service thereby adversely affecting relationship. Here, charisma counts. It plays an important role in customer retention.
13. *Tone at the top*: When the top brass puts the customer in the forefront in their behaviour, while formulating strategies and policies, making operational plans, it gives a clear message down the line that customer is the king. It sets the tone and a positive example for the subordinates.
14. *Accepting responsibility*: A firm is represented by an employee and the service culture should be such that an employee is always ready to apologise on behalf of the firm in the case of a negative feedback.
15. *Authenticity*: Always be true to your customer and never fake it. Authenticity helps build trust and faking mistrust.
16. *Personal service*: Level of service depends upon the personality and choice of an individual customer. While few may be very reserved and opt for formal, diligent behaviour and want their questions answered in a factual manner without foraying in to new directions, others may prefer informal, personal conversation, friendliness and open to suggestions and consultative approach. It is very important to personalize an experience.
17. *Customer is always right*: Even if a customer is wrong, avoid directly telling it. Try to correct the customer in a helpful and positive way.
18. *Customer advocacy*: A customer service executive is supposed to take the side of the customer and not that of the company. The customer's suggestions for changes in process, product and services should be advocated for, wherever possible.

It is essential to create a purposeful service culture in an organization, and for that one needs internal focus. The first step is to identify ones unique service culture by visualizing a customer service image. From there, it's crucial to align the business around the service culture.

Check Your Progress

1. What are the demerits of including customers in the production process?
2. What are the benefits of open door policy?
3. Define service culture.
4. What is owed respect?
5. What is earned respect?

9.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Organizations raise concerns over the degree of uncertainty that customers bring to the production process, and hence suggest that their role be limited to the delivery process. Factors like timing of the customers' demands, unpredictability of their attitudes, moods and actions bring certain level of uncertainty to the production process.
2. Open-door policies encourage employees to air their grievances and make suggestions directly to their superiors.
3. Service culture is the way a company thinks about its customers, its interaction with them and how they are served. It is an organizational culture where the employees in unison identify ways about providing outstanding service, decides on various acts to provide it, and try to understand why they do it.
4. Respect in the place of work is of two types: owed respect and earned respect. All employees irrespective of status or performance should be given Owed respect. It's basic human courtesy.
5. Earned respect is recognition of the employee's qualities, achievements and behaviour.

9.7 SUMMARY

- It is important to understand the process by which customers evaluate the total service offering. Customers initially assess the core service for its ability to satisfy their substantive needs for a service.
- According to Teboul, the feature that lies at the core of service is the interface between the producer and the consumer. A service is characterized by its simultaneous production and consumption. This entails the physical presence of the customer at the time of production or delivery of the service.
- The valuable inputs by the customers not only influence the quality of the service produced but also affects the overall generation of output.
- Another important role that the customers play in the production process is to contribute to their own satisfaction with the quality of the service produced. Researches show that the customers' satisfaction with the quality of the service increases with their level of participation.
- If customers can be viewed as partial employees, in the sense that they can partially perform the service for themselves, then they may also be seen as potential competitors. In the role of competitors, customers are believed to be capable of performing the entire service for themselves, hence, doing away with the provider altogether.

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- Human attributes are embedded in the service offer in several ways. Most service-production processes require the service organization's own personnel to provide significant inputs to the service production process. Many service processes require the active involvement of the consumer of the service and the consumer is involved as the co-producer of the service. Others who simultaneously consume a mass-produced service can influence the benefits that an individual receives from the service. The characteristics of other users of a service can affect the image of the service.
- For some businesses, the employees are the business. If they are taken away, the organization is left with very few assets with which it can gain competitive advantage in meeting customer needs.
- HRM is central to the activities of the organization and it cannot be seen as a separate activity. The importance attached to HRM within any organization can be gauged by examining the proportion of total costs which are represented by personnel costs, and the importance of personnel encounters with customers within the service offer.
- Frontline employees and also those people who support them from behind the curtains are necessary for the progress of any service organization. As the firm's employees represent its face and directly influence customer's decision, they also perform the role of marketers.
- If management strategy is effective, there should be little difference between the aims of an organization's business plan and those of employees. Management strategy should seek to make the two congruent by facilitating increased participation.
- Increased participation is brought about by a combination of consultation and communication methods and team briefings. Open-door policies encourage employees to air their grievances and make suggestions directly to their superiors.
- Service culture is the way a company thinks about its customers, its interaction with them and how they are served. It is an organizational culture where the employees in unison identify ways about providing outstanding service, decides on various acts to provide it, and try to understand why they do it.
- To develop an effective service culture, it is very crucial to make the company a great place to work. Respect towards employees, empowerment of employees, friendliness, professionalism, continuous feedback and transparency are some of the ways in which effective service culture can be developed.

9.8 KEY WORDS

- **Human resource management:** Human resource management (HRM) is the term used to describe formal systems devised for the management of people within an organization.

- **Service:** Service simply means an action that a person performs for others. It is an action or doing work for someone that does not involve transfer of physical goods.
- **Service culture:** It is the way a company thinks about its customers, its interaction with them and how they are served.
- **Transparency:** This means that organization is upfront about the actions it takes and whether those actions are consistent with its values. Today, more transparent and ethical approach is invited at workplaces. Many business houses promote truthfulness, transparency and reliability.

9.9 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the ways in which human attributes are embedded into the service offer?
2. Write a short note on the role of HRM within the organization.
3. What is the role of frontline employees in a service organization?
4. What are the ways in which employee's participation can be increased?

Long-Answer Questions

1. Describe the role of customers in the production of service.
2. Explain the role of service personnel in the service production process.
3. Discuss service culture in detail and the ways it can be enhanced.

9.10 FURTHER READINGS

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UNIT 10 PHYSICAL EVIDENCE

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Structure

10.0 INTRODUCTION

Physical evidence is an important element of the service marketing mix. Not only does it provide information on the environment in which the service is delivered, but also creates space for the intermingling of the company and the customers.

In this unit, you will learn about the types of physical evidence, namely peripheral evidence and essential evidence. The unit will also discuss the role of servicescape in the service business. Furthermore, the guidelines for physical evidence strategy will also be outlined in the unit.

10.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the classifications of physical evidence
- Discuss the role of servicescape in the service business
- Describe peripheral evidence and the guidelines for physical evidence strategy

10.2 CLASSIFICATION OF PHYSICAL EVIDENCE

Services are known to be largely intangible. However, consumers tend to rely on physical aspects to help them evaluate the service before they purchase it. Therefore, marketers build up physical evidence to replace these physical aspects in a service. The marketer's role is to design and employ such tangible evidence. It is the material part of a service. As an element of the marketing mix, physical evidence is the location and environment where the customer purchases and/or consumes the service. It is the environment in which the service is delivered, where the company and customer intermingle in the exchange of the service.

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A large number of factors actually influence the customers of service organisations in their decision making process i.e. to obtain or use a specific service. Physical evidence is one such factor which plays a very important role. Due to the intangibility of service, customers look on to tangible cues or physical evidence to appraise the service before its purchase and to assess their satisfaction with the service throughout its consumption. Physical evidence helps to build the 'environment' and 'atmosphere' in which a service is procured or executed and assists in shaping a customer's perceptions of a service.

General fundamentals of physical evidence comprise all features of the organization's physical facility (the services cape) as well as other forms of tangible communication. Both exterior attributes (such as exterior design, surrounding environment, parking, signage, landscape) and interior attributes (such as design, layout, equipment, air quality and decor) are the basics of the services cape that affect customers. It is evident that some services correspond heavily through physical evidence (e.g. hospitals, resorts, child care), while others provide limited physical evidence (e.g. insurance, express mail).

Physical evidence in services marketing is classified into two types, namely (a) Peripheral evidence and (b) Essential evidence.

(a) *Peripheral evidence*

Peripheral evidence, although a part of the purchase process, has little value of its own. It is the additional feature of the service that contributes to the overall consumption process. Peripheral evidence is basically considered as a value added part of the actual service consumed. A bank cheque book is of no value unless supported by the funds transfer. Napkins used in a restaurant or the packaging of a product are also supplementary services are further examples. The hotel rooms of many large international hotel groups contain much peripheral evidence like directories, city maps, pens, notepads, welcome drink, fruit baskets, drink packs, matchbooks and so on. Thus, peripheral evidence, on its own, has very little merit. However, when used in combination with the product or service, it can add value to the intangible elements of a product or service.

(b) *Essential evidence*

Essential evidence, unlike peripheral evidence, cannot be possessed by the customer but it contributes to the perception of value of a product or service. It may be so relevant in influencing a service acquisition, that it can be deemed to be a factor in its own right. Essential evidence, as compared to peripheral evidence, is the products, components, or elements used by a company to execute their product. For example, the linens, towels, and toiletries a hotel provides. We can sight common examples of essential evidence like the appearance and layout of a hotel, the 'feel' of a bank branch, the type of vehicle rented by a car rental company, the type of aircraft used by a carrier, etc. Essential evidence is one of the most vital issues while designing the physical evidence constituent of the marketing mix. A holistic approach is being created by a firm in the way it addresses the types of physical evidence.

Managing the Evidence

A service firm with peripheral evidence and essential evidence in combination with advertising, promotional, personnel and public relations can formally create and maintain its image. All of them put together are inputs to service product design. Image creation is more about individual perception and is subjective, and hence is difficult to define, measure and control. Still, people construct images based on a range of facts. Therefore, a firm must manage that evidence in such a way so that the image communicated matches with the image expected. The management of physical evidence forms part of this task.

Managing physical evidence should be an important strategy for a service marketing organization because of the intangibility of a service. There are two aspects of intangibility that are identified:

(a) that which cannot be touched; imaginary;

(b) that which cannot be defined, created, grasped mentally.

Both showcases current problems and challenges to service marketers who need to find ways to make the service more 'obvious' and to make it easier to 'register and recognize'. These two aspects pose greatest challenge to the service marketer.

A. To add tangibility to the service product

This can be done by concentrating more on a tangible representation of a service. Bank credit card is an example of the tangible representation of the service, 'credit'. Use of the card means:

(a) the service can be segregated from the seller;

(b) the card (i.e. the service product) of one bank can be differentiated from the card of another bank (e.g. physical appearance, graphics and brand names like MasterCard, Visa).

(c) possession of the card along with its primary objective of providing a line of credit also reflects status symbol.

B. To make service product recognizable

There are two ways in which a service can be made easier to grasp mentally.

(a) Link the concerned service with a tangible object which is more easily perceived by the customer:

This approach is useful in advertising messages. Here, the intangible nature of the service is translated into tangible objects representing that service.

(b) Focus on the buyer-seller relationship:

It is all about personalized services offered to strengthen the relationship between the buyer and the seller. A customer associates oneself with a person in the service organisation instead of the services offered. Advertising agencies use account executives; market research agencies assemble client

teams; the Banks use 'relationship managers'. They all encourage a focus on people performing services rather than upon the services themselves.

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10.3 ROLE OF THE SERVICESCAPE

Physical evidence helps a service organization to enhance its value proposition for its customers. For instance, a better layout in a fast food joint allows more free space for customers to move about, keeps the space clutter free during periods of peak demand, enables employees to clean the physical space easily, etc. Similarly, appropriate equipment and infrastructure in a health care facility adds to the effectiveness and efficiency of the organization, and directly impacts service quality.

Tangibles enhance the service delivery process. For instance, banks provide information to customers regarding the usage of ATM facilities by using appropriate signage. Fast food joints display their menus and offers inside the service facility to aid customers. In petrol stations, physical demarcations of different entry points facilitate and expedite services. For instance, there are separate stations for re-fuelling and servicing. Specific and customized solutions can be observed in banks, restaurants, health care centres, and airports. Not only do these tangibles provide customers with information, which helps the service organization provide the service more efficiently, it also enables the service concern to enhance service quality.

Some tangibles, such as the use of uniforms, are perceived by the customer in numerous ways. It conveys coherence, organizational values and ideals, and uniformity. Employees are easily identifiable and in the process a rapport is established with the customer. Providing solutions is also an integral part of physical evidence. Just as packaging contributes to the communication of image of a physical product, tangibles play the same role for the service enterprises.

Though it is widely acknowledged that physical evidence plays a major role in services, many companies do not actively engage in creating and managing these tangibles. Communication using tangibles is particularly pertinent for services such as hotels, health care centres, retail stores, food joints, and educational institutions.

The biggest reason for marketers to use tangibles is that customers are physically present in the servicescape, or are alternatively exposed to the servicescape, and they tend to form judgments about service quality on the basis of these tangibles. Simultaneous production and consumption of services, and non-inventorization of services, being the primary nature of services, makes the presence of the customer inevitable in most cases. It should also be noted that physical evidence impacts customer satisfaction.

When a customer is present in the servicescape, they tend to interact with the employees in the organization. It should be noted that service delivery generally involves personal contact between the employee and the customer. However, the tangibles should be designed in way so as to serve the needs of both the employees and the customers. In services, employees are a critical element of quality as

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parameters such as reliability, responsiveness and empathy are achieved through them.

Most service organizations do not pay much attention to the issue of designing and managing servicescapes so that they facilitate the service encounter, and are also useful to enhance the motivational level of employees. For instance, servicescape design directly affects customer satisfaction, and yet more emphasis is on variables such as advertising and pricing.

Servicescape is not equally important for all service organizations. However, wherever customers are present in the physical space of the service marketer, servicescape assumes importance. Also, servicescape can be strategically utilized to enhance the satisfaction levels of the employees as well.

Table 10.1 *Typology of Service Organizations based on Variations in Form and Usage of the Servicescape*

Types of Service Organization Based on Who Performs Actions Within the Servicescape	**Physical Complexity of the Servicescape** **Elaborate**	**Lean**
Self-service (customer only)	Golfland	ATM
	Surf 'n Splash	Ticketron
		Post office kiosk
		Movie theater
		Express mail dropoff
Interpersonal services (both customer	Hotels	Dry cleaner
and employee	Restaurants	Hot dog stand
	Heath clinic	Hair salon
	Bank	
	Airline	
	School	
Remote service (employee only)	Telephone company	Telephone mail order
	Insurance company	desk Automated voice-messaging-based service
	Utility	
	Many professional service	

Source: Mary Jo. Bitner, *Journal of Marketing*, Apr 1992, Vol. 56 Issue 2, p57, 15p

In a self-service organization, the service actions are performed only by the customer. In this instance, customer involvement is very high, and the employees' role is either minimal or completely absent. A completely opposite case is seen in a 'remote service,' implying the near absence of customer role in the service delivery process. In between both these situations are the 'interpersonal services,' that involves the participation of both customers and employees in the service delivery process. In the Indian context, in order to understand self-service better we may look at any fast food joint in detail. For instance, Nirulas engages customers directly

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in the service process which ranges from placing the order to collecting the order. With regard to interpersonal services, host of service sectors come into play. These include schools, restaurants, hotels, airlines etc. Here customers and employees interact at every level of the service process.

Wherever remote services are involved, the predominant consideration for the design of the servicescapehas to be what facilitates the service delivery process for the employees. Similarly, where self-service activities or technologies are concerned, the predominant criterion for the selection of the tangible elements has to be customer facilitation. In case employees and customers both participate in the service delivery process, an organization must evaluate the impact of the elements of servicescape on their interpersonal interaction.

The objectives that can be fulfilled by the elements of servicescape also vary. In case of self-services, the objective of the tangibles is to enhance customer satisfaction, and provide meaningful differentiation, while in case of remote services, it is to motivate employees, reinforce organizational culture and enhance efficiency. Therefore, the tangible elements can be used to enhance organizational efficiency, while also furthering the marketing objectives of the company.

In elaborate service environments, the servicescape is extremely important as there is a direct contact between the customer and the employees. Many times, this interaction could be for a prolonged time period for example, in a hospital, educational institution or a hotel. In these cases, various tangible elements must be used by the service company to convey the right image. For instance, in a hotel, the entrance, lobby, reception, room and the amenities therein must be managed, as customers get quality cues from each of these elements. Further, the design, layout and facilities in the room can be an important means of differentiation for the organization.

One of the most elaborate service facilities is a hospital. Servicescape in a hospital can be designed in such a way that it enhances customer satisfaction along with employee productivity. For instance, a single window system for preparing bills and keeping records can be extremely useful in enhancing customer satisfaction as the customer does not have to undergo the hassles of running around. Also, it can eliminate several other windows for billing and also reduce staff required, thus, enhancing the efficiency for the hospital.

Check Your Progress

1. What are the two types of physical evidence in services marketing?
2. Give an example of peripheral evidence.
3. Give an example of essential evidence.
4. What are the two aspects of intangibility of a service that need to be considered?
5. How can a service product be made more recognizable?

10.4 PERIPHERAL EVIDENCE

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As discussed earlier, the physical evidence is the most essential part in creating tangibility in the service offer. These evidences, whether peripheral or essential evidence, provide cue to the customers and helps them in understanding the serviced offer and also the quality of the service.

Essential evidence forms the core of the service product and are inseparable from the service offer while the peripheral evidence are those tangibles which are perceived as a gift from the service provider and can be carried along by the customer.

Peripheral evidence in most of the cases is considered to be purchased along with the service product and therefore it can be actually possessed or is considered to be that part of the service product.

The peripheral evidence adds on to the credibility and quality assurance of the service product but independently it has little or almost no value for the customers. Adding to it, peripheral evidence would be important till the time customer attaches or sees some value in it or it would become irrelevant if it does not adds on to the value of the essential evidence. Service marketers need to create the peripheral evidence around the essential evidence in such a way that it complements the core service rather than appearing superfluous and wasteful. For example, a banking service provider has to provide the ATM card, Debit Card, cheque book, passbook etc.; customer identifies value in these peripheral evidences which actually aid in the delivery of the core service product. Going a step further, a service provider may add a beautiful folder to the whole assemblage or a pen or folio, although these do not add to the main service but definitely leave the customer with a good feeling and creates an image of quality and credence.

A customer checking in a hotel expects neat room, neat bed and good food and amenities; along with it, peripheral evidence like maps and tourists guide books, pen, note pads, welcome drinks and gifts etc. add on to the ambience and satisfaction.

Such peripheral evidences are designed keeping in mind the overall corporate image and corporate identity which the service organization desires to build in the minds of the customers.

These items of physical evidences not only act as service differentiator but also act as a constant reminder for the customers. Say for example, Airlines sometimes provide collectible biscuit cans or jars or carry bags for kids, which remain with the customers for a long time and remind them of the delightful experience with that airline.

With the increased importance of the customers and increased competition, each service provider has to think of innovative ways to gain loyalty of the customers. With increasing standardization of the service products, there is very little that can be done with essential evidence but the peripheral evidence gives a lot more margin

to the service provider and service marketers to create enough avenues of differentiation.

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Certain hospitals have created play area in the waiting area for paediatric patients or provide them with whistles, toffees, candies, caps, drawing books and crayons, which actually eases out the whole process for the parents and the caretakers so they naturally feel comfortable in such places.

Making wheelchairs available or making the place disabled friendly is an addition to the social character of the service provider and naturally brings in the loyalty of the customers.

Now the need of the hour is to not only design the service product in such a manner as to provide hassle free transaction but also leave a lasting impact on the minds of the customers so that they build a lifelong bond with the service provider.

The peripheral evidence is one such tool with service marketer that can work wonders, if used carefully. McDonalds provides balloons and caps to the children which makes them want to go back again and again. Airlines can no longer just rely on giving tickets and comfortable lounges but they have to think beyond. Restaurants are expected to serve sumptuous meals in ambient surroundings, provide a good parking lot, and give carry along gift or token on departure such as a calendar or a memorable picture of the family dining together.

Thus, peripheral evidence actually can transform the service experience for the customers but provided it is carefully crafted and thought, keeping in mind the customers' expectations and wishes. There is a lot of room for being creative and innovative. The car maker Maruti Suzuki at the time of delivery of the car provides a box of chocolate especially made in the shape of the particular car purchased. This seems to be a very little effort on part of the auto maker but leaves the customer with such a wonderful feeling.

10.4.1 Guidelines for Physical Evidence Strategy

Physical Evidence is referred to as the surroundings in which a service is delivered, which facilitates firm and the customer interaction, and any tangible commodities that act as an aid in the performance or communication of the service. The physical evidence of a service is the tangible aspect that forms an impression about the service or provides the evidence of service delivery. It contributes in creating perception of the quality and the price of the service. The success of the business lies in the minimal extent to which customer perception differs with actual delivery and performance. Hence, it is necessary that a firm formulates its strategy for designing physical evidence in such a way that it manages it in the most effective and efficient manner.

Moreover, physical evidence is the one of the most important tool of the extended services marketing mix.

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While formulating an effective physical evidence strategy, some general guidelines are to be followed, which are as under:

1. **Identify the strategic impact of physical evidence:** Physical evidence has an effect on the service quality expectations and perceptions. So, every service firm should first realize the significance of physical evidence and henceforth, an effective planning is considered necessary for physical evidence. The planning strategy should be linked to firm's vision and its goals. A strategy should be carefully designed to provide maximum support towards accomplishment of organizational goals.

   The service management should go about the planning meticulously. It should address three aspects:

   (i) the basic service concept must be defined,

   (ii) the target markets (both internal and external) should be identified, and

   (iii) the firm's broad vision must be known.

   Since many evidence decisions are somewhat everlasting and costly (particularly servicescape decisions), they must be designed and executed consciously.

2. **Blue printing or mapping the physical evidence of service:** The second step is to map the service. Everyone linked with the service delivery must be able to see the service process and the existing elements of physical evidence. An effective way to portray service evidence is through the service map, or blueprint. Roles are defined for and clearly understood by the various people involved in providing the service. A service map virtually displays the service by simultaneously depicting the process of service delivery, the points of customer contact, the roles of customers, the visible elements of the service, and the tangible representations present at each step. Photographs or videotapes of the course of action can be added to build up a photographic blueprint that makes the map even more useful.

3. **Communicating the strategic roles of the servicescape:** Servicescape is the design of service facility. It is the physical environment or the physical facility where the service is produced, delivered and consumed. The quality of service creates mood, an attraction or a desire for a re-visit in the context of service purchase. Servicescape plays multiple roles of package, launch pad, socialiser and differentiator. The physical setting is the visual aspect which influences customers of a service and it plays the role of package. The physical ambiance enables the organization to build a particular image. The servicescape can also positively influence the performances delivery people. Service setting should boost the resourceful flow of activities. The socialiser role is perfectly played by servicescape by helping both employees and customers to convey clear messages. A good servicescape promotes a

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smooth relationship between the delivery people and customers. Visual differentiation with competitors can be created through innovative design of the physical facility.

4. **Assessment and identification of the opportunities for physical evidence:** Once the current states of evidence and the function of the servicescape are understood, opportunities for improvement can be identified. One might come up with a strategy to provide more evidence of service and let know customers what exactly they are paying for. For example, if the high price charged by a restaurant does not match with the services and facilities provided to the diners, then there is a need to change either the pricing or facility design. One should always remember that every individual visits a particular service organization with a purpose.

   The following questions must be asked:

   - Are there any missed opportunities to provide service evidence?
   - Whether the current physical evidence of service suits the needs and preference of the target segment?

   The physical setting should fulfil customers' needs. Properly managed and secured parking space, cleanliness, quick service, etc. are some physical evidences that can satisfy the customers.

5. **Modernization of the physical evidence:** It cannot be expected that physical evidences once created will remain constant forever. With the passage of time, they may require periodic updating and modernizing, even if the vision, goals, and objectives of the company do not change. Changes over time take a toll on physical evidence, thereby necessitating intermittent change and modernization. Taking cue from the textile industry, we all know how transformation in fashion, colour, design and style reflect changing times. If not, physical evidences will fail in their attempt to attract customers. Organizations apparently understands this when it comes to advertising strategy, but sometimes they overlook other elements of physical evidence.

6. **Working cross-functionally:** In presenting itself to the customer, a service organisation is concerned with communicating a preferred image, with sending reliable and friendly messages through all forms of evidence, and with providing the type of service evidence the target customers want and can understand. The management is required to make a number of decisions with regard to servicescape. A multi-function teamwork approach is required for the decision-making process. Cross functional departments need to work with proper coordination. For example, the human resources area is concerned with decisions regarding employee training and process design decisions are made by operations manager. Further, marketing department takes advertising and pricing decisions while facility management group may decide servicescape. Thus, decisions are made over time and by the various functions within the organizations. Therefore, cross-functional team approach is required to be consistent in providing physical evidence.

Check Your Progress

6. State the positive impact of servicescape.
7. What is service map?

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10.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Physical evidence in services marketing is classified into two types, namely (a) Peripheral evidence and (b) essential evidence.
2. An example of peripheral evidence is the bank cheque book, which is no value unless supported by the funds transfer. It is a value added part of the actual service consumed.
3. Common examples of essential evidence include the appearance and layout of a hotel, the 'feel' of a bank branch, the type of vehicle rented by a car rental company, the type of aircraft used by a carrier, etc.
4. There are two aspects of intangibility that are identified:
   (a) that which cannot be touched; imaginary;
   (b) that which cannot be defined, created, grasped mentally.
5. A service product can be made more recognizable by linking the concerned service with a tangible object which is more easily perceived by the customer and by focusing on the buyer-seller relationship.
6. The servicescape can positively influence the performances delivery people. Service setting should boost the resourceful flow of activities. The socialiser role is perfectly played by servicescape by helping both employees and customers to convey clear messages. A good servicescape promotes a smooth relationship between the delivery people and customers.
7. A service map virtually displays the service by simultaneously depicting the process of service delivery, the points of customer contact, the roles of customers, the visible elements of the service, and the tangible representations present at each step. It is an effective way to portray service evidence.

10.6 SUMMARY

- Consumers tend to rely on physical aspects to help them evaluate the service before they purchase it. Therefore, marketers build up physical evidence to replace these physical aspects in a service. The marketer's role is to design and employ such tangible evidence. It is the material part of a service.
- As an element of the marketing mix, physical evidence is the location and environment where the customer purchases and/or consumes the service. It

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is the environment in which the service is delivered, where the company and customer intermingle in the exchange of the service.

- General fundamentals of physical evidence comprise all features of the organization's physical facility (the services cape) as well as other forms of tangible communication. Both exterior attributes (such as exterior design, surrounding environment, parking, signage, landscape) and interior attributes (such as design, layout, equipment, air quality and decor) are the basics of the services cape that affect customers.
- Physical evidence in services marketing is classified into two types, namely (a) Peripheral evidence and (b) Essential evidence.
- Peripheral evidence is the additional feature of the service that contributes to the overall consumption process. Peripheral evidence is basically considered as a value added part of the actual service consumed.
- Essential evidence, unlike peripheral evidence, cannot be possessed by the customer but it contributes to the perception of value of a product or service. Essential evidence is the products, components, or elements used by a company to execute their product.
- Managing physical evidence should be an important strategy for a service marketing organization because of the intangibility of a service. Service marketers need to find ways to make the service more 'obvious' and to make it easier to 'register and recognize'.
- A service product can be made more tangible by linking the concerned service with a tangible object which is more easily perceived by the customer and by focusing on the buyer-seller relationship.
- Wherever customers are present in the physical space of the service marketer, servicescape assumes importance. Also, servicescape can be strategically utilized to enhance the satisfaction levels of the employees as well.
- Essential evidence forms the core of the service product and are inseparable from the service offer while the peripheral evidence are those tangibles which are perceived as a gift from the service provider and can be carried along by the customer.
- Every service firm should first realize the significance of physical evidence and henceforth, an effective planning is considered necessary for physical evidence. The second step is to map the service. Everyone linked with the service delivery must be able to see the service process and the existing elements of physical evidence.
- Once the current states of evidence and the function of the servicescape are understood, opportunities for improvement can be identified. It cannot be expected that physical evidences once created will remain constant forever. With the passage of time, they may require periodic updating and

modernizing, even if the vision, goals, and objectives of the company do not change. Cross-functional team approach is required to be consistent in providing physical evidence.

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10.7 KEY WORDS

- **Physical evidence:** Physical evidence is the location and environment where the customer purchases and/or consumes the service. It is the environment in which the service is delivered, where the company and customer intermingle in the exchange of the service.
- **Peripheral evidence:** It is the additional feature of the service that contributes to the overall consumption process. Peripheral evidence is basically considered as a value added part of the actual service consumed. A bank cheque book is of no value unless supported by the funds transfer.
- **Essential evidence:** Essential evidence cannot be possessed by the customer but it contributes to the perception of value of a product or service. Essential evidence is the products, components, or elements used by a company to execute their product. For example, the linens, towels, and toiletries a hotel provides.
- **Interpersonal services:** It involves the participation of both customers and employees in the service delivery process.

10.8 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. How can physical evidence be used for image creation in a company?
2. How can tangibility be added to a service?
3. Write a short note on peripheral evidence.
4. How can peripheral evidence transform the service experience of the customers?

Long-Answer Questions

1. Explain the difference between peripheral evidence and essential evidence.
2. Describe the role of servicescape in service marketing.
3. Discuss the guidelines for physical evidence strategy.

10.9 FURTHER READINGS

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BLOCK - III
INTERNAL SERVICE MARKETING

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UNIT 11 INTERNAL MARKETING

Structure

11.0 INTRODUCTION

The interaction between employers and employees is augmented through communication and participation method. In this unit, you will learn about the objectives and role of internal marketing. The service marketing triangle, i.e. internal marketing, interactive marketing and external marketing will be discussed, while also accentuating the components of these three elements.

The unit will also discuss relationship management and explain the ways of managing the relationship between customer and the organization.

11.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the objectives and role of internal marketing
- Explain the components of internal and external marketing
- Analyse relationship management and discuss the ways of managing relationships

11.2 OBJECTIVES: ROLE OF INTERNAL MARKETING

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The aim of employees must be made congruent with that of the organization. Some form of consent must exist between the employer and employees. This can be achieved by communication and participation methods. Internal marketing is the application of marketing techniques to audiences within the organization. All employees operating in their functional areas interact with other functional specialist in a quasi trading manner. Personnel department can be seen as providing recruitment experience for an organization's accounting department, while the latter can be regarded as providing payment systems on behalf of personnel department. Each functional group engages in trade with other functional groups as though functions were external customers. All functional staff must work together in support ofan organization's mission and business strategy. Everyone must be able to share a common purpose. The mission must be communicated to employees in much the same way as brand values are communicated to external customers. Internal marketing communicates values of an organization in order to increase their level of consent and moral involvement.

Internal Marketing Techniques

Some of the internal marketing techniques are:

- The organization's mission statement should be clearly formulated and communicated to employees.
- Internal newsletters help to develop sense of involvement and inspire confidence by reporting significant new development.
- External advertising should regard the internal labour force as a secondary target market. The appearance of ads on TV can inspire confidence of employees in the management.
- Staff uniforms and physical environment in which they work can be used to inspire staff's confidence in the organization and convey the personality of the organization which it desires to achieve.

Reducing Dependency on Human Resources

- Employees represent an expensive and difficult asset to the manager and the quality of output can be perceived as highly variable. The aim of employee replacement schemes can be to increase consistency or to reduce costs.
- The human element in a service production and delivery process can be completely replaced by automatic machinery, for instance, ATM machines. Constraints come from limitations of technology, cost of replacement machines, etc.

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- Equipment can be used alongside employees to assist them in their task. This may havethe effect of de-skilling their task by reducing the scope they have for exercising discretion and therefore reducing variability in quality. For instance, computerizing accounting system.
- Consumers can be asked to act as co-producers. For instance, in restaurants, customers can be asked to make their own salad combinations.

Making Services Accessible

The method by which a service is made available to customers is a defining characteristic of the service offer. The method by which banks, restaurants and shops make the service offer accessible to customers often is the service.

Without a strategy to make a service accessible to customers, a service is of no value. The inseparability of service makes the task of passing on service benefits much more complex than is the case with manufactured goods. Inseparability implies that services are consumed at the point of production. A service cannot be produced by one person in one place and handled by other people to make it available to customers in another place. A service cannot be produced where costs are lowest and sold where demand is greatest. Service accessibility must be designed into the service production system.

11.2.1 Components of Internal Marketing and External Marketing

Internal and external marketing are two of the most important component of the service marketing triangle that ensures smooth interaction between customer and the organization.

The service marketing triangle

Marketing of services requires interaction of a few specific components, that is, customers, staff and the organization. These three elements have to work together in tandem to deliver a service in a satisfactory manner. The interaction amongst these three elements occurs in the form of marketing that takes place internally, externally and interactively. This interaction is responsible for making the process of service delivery up-to-the mark. Christian Grönroos introduced a model in which he divides the service marketing into three components, viz, internal marketing, interactive marketing and external marketing.

According to this model, internal marketing has to be managed by the company's leaders, the interactive marketing refers to the interaction between the clients and customers and the external marketing is what takes place between the company management and the customers.

The internal marketing here refers to the involvement of the top management of an organization in training and motivating their employees to become 'customer conscious'. It includes all those activities that are planned in order to train the

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employees to this end. The interactive marketing plays an important role as it constitutes direct contact between the customers and the employees. It includes all the planning and activities that deal with the first interaction between the customer and the employees and follows up through the intermediate phase to post-sales phase. It is a very crucial stage in service marketing as it is during this stage that the company-customer relationship is built and maintained. At this stage, the sphere of marketing overlaps with that of relationship management, which will be discussed in later units.

Lastly, external marketing is the stage where most of the marketing communication happens between the company and its customers. Various tools like advertisements, websites, brochures, etc. are employed for this purpose.

Check Your Progress

1. List two internal marketing techniques.
2. What are the three elements of a service marketing triangle?
3. What is external marketing?

11.3 RELATIONSHIP MARKETING: GOALS OF RELATIONSHIP MARKETING

One of the important ways sustainable relationship between organization and customer is maintained is through relationship management. The first step involves the building of customer relationships.

11.3.1 Building Customer Relationships

An organization's strategies towards developing and maintaining sustainable relationship differ from one organization to another depending on certain factors. These include nature of business, its size, its market share, nature of product type, volume of sales, geographic concentration, socio-economic status and life style of the customers concerned, competitors' strength, and so on. The following sections provide a wide spectrum of strategies that are practiced by service organizations with national and global perspectives.

People

People within the organization have the basic role in developing and maintaining relationship with customers. Everyone in the organization must realize the fact that they are working towards satisfying customers. Everyone from the lowest to the highest level irrespective of their functional specialization and responsibilities must integrate their activities towards one of the main objectives of a service organization—customer satisfaction. The marketing department can coordinate

integrated activity towards customer satisfaction. Obviously, people within the organization form the basis for building customer relationship.

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Process

Process involves a logical sequence of activities right from the need identification of potential customers to their need fulfilment. Need fulfilment requires delivery of services with desired attributes. The process has to be derived from the customer's viewpoint, which paves way for total customer satisfaction. The performance of each service encounter must be objectively analysed and corrected in tune with the internal and external customers' expectations.

Product

The service offered must constantly provide value addition. The expectations of the customers may always be on the increase due to various reasons. A customer satisfied with a given product may soon become an unsatisfied customer in view of the changes that take place in his or her own expectations. In the absence of physical evidence, it is hard to keep track of customer's expectations and its realization.

Organization

In order to build customer relationship, a service organization should be aware of the technology advancements and provide quality services in tune with the customer's expectations. It should concentrate on total customer satisfaction and respond to the requirements of the customers faster than its competitors. The responsive and learning nature of a service organization must build confidence in the mind of the customers that will go a long way in building the customer relationship.

Setting Satisfactory Service Standard

During service process, a service organization is expected to render services in all three phases, viz, pre-sales, during sales and after-sales. During pre-sales, when the customer develops expectations, the organization must ensure quality and availability of the service in time. In service process, what the customer experiences during the delivery of the service is of uttermost importance. During after-sales, when the sales are finalized, the organization must provide supporting services to their core services, for example, simplified complaint procedure, efficient service recovery system and so on. Such services, which are provided immediately, will bring total customer satisfaction.

Concentration on Competitors

An organization must focus constant attention on the competitors' performance, their strategy and style of operations and compare the same with its own performance. Customers always make this comparison, especially during the pre-sales phase, and decide their future purchase pattern. Such analysis done by organization would help in increasing its strengths and reducing its weaknesses.

The organization's performance must always be a step ahead of its competitor and it must know that the customer feels the difference. As long as the customer understands and agrees with this comparatively better performance, the relationship will continue to exist.

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Customer Analysis

Customers form the key component of service industry. Customers referred here include the present customers availing of the services of an organization as well as the prospective customers who are presently associated with the competitor organizations. These customers must be periodically analysed from several perspectives such as who constitute the customer inventory, level of customer retention, what makes them purchase a particular service, what their level of satisfaction is, where they are placed in the loyalty ladder, what makes them disloyal, and so on. This analysis is to be performed not only on the existing customers but also on the former customers, so that corrective actions may be instigated to retain current customers. Periodical customer satisfaction audit program would provide a meaningful insight into the customer attitude and their behaviour. It will further help in developing appropriate strategies to retain relationship with the customers. For customer analysis and competitor analysis, the organization may depend on external agencies, so that an unbiased report can be obtained, which in turn would enable the organization to further minimize its errors.

Cost Analysis

An organization must focus attention on the cost of the services. There must always be sincere attempts towards cost reduction without compromising on quality. The organization must perform value analysis and try to reduce costs and retain the same good quality or improve quality of the service. This would help to avoid switching over of the customer to other service-providing firms.

Concentration on the Paying Ability of Customers

Pricing decisions are to be governed not merely by cost-related factors. Before fixing price for a service, the paying ability of the potential customers must also be viewed. To some extent prices are to be adjusted in tune with the fluctuations in the paying ability of potential customers. In this process, an organization may have to sacrifice small portions of the profit tentatively. But, considering long-term relationship and future opportunity of earning, such price adjustment is worth practicing. If customers were lost due to price factor, then the organization would have to invest heavily in trying to get them back but with no guarantee for the same.

Knowledge on Purchase Behaviour Pattern

Organizations should have a thorough knowledge of the purchase behaviour pattern of their customers. The influencing factors of the purchaser decision process and the ultimate outcome are to be analysed in depth. The outcome of purchase decision

may be any one of the four, viz., (1) purchase, (2) rejection, (3) postponement, (4) search for substitutes. The organization should have an idea about what percentage of customers arrive at what sort of a decision and appropriate steps are to be initiated towards making them buy the services on a continued basis.

Differentiation in Prices and Quality Standards

An organization may come forward to offer the same service at various quality levels with price variations. To meet a particular need, several varieties of the same service at differing price level must be available, so that the customer depending on his or her financial position may prefer at least one of the varieties available. This would prevent the customers from switching over to other cost-effective firms.

Focus on Reducing Dissatisfaction

Irrespective of the standard of the services offered by an organization, it is likely that the customers would reach a level of dissonance and seek remedial actions. An organization must be proactive to tackle such a situation. All unsatisfied customers will not come forward to show their displeasure. They may simply make a brand switch in terms of the service provider. This will badly reflect on the prospective customer's attitude. To avoid this, the causes for dissatisfaction are to be identified and have to be attended well. If a complaint is well attended, then the unsatisfied customer becomes more loyal to the organization and thereby, the relationship would continue to exist.

The organization must see that there is a sense of matching between the customer requirements and that of the organization requirements in terms of the following parameters at every point of time.

These parameters are:

- Goals
- Demand
- Limitations
- Options
- Values and behaviour.

'Goals' are what the organization would like to reach and what the customer would like to receive. The 'demands' are concerned with the pressure under which the organization and the customers are. 'Limitations' are constraints on the part of the organization and also on the part of the customers. The parameter 'option' relates to the alternatives available to the organization as well as to the customers concerned. 'Values' are the common standards accepted both by the organizations and the customers. 'Behaviour' is the line of actions and reactions by organizations and customers.

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Concentration on Performance

Performance of each one in the chain of service offering is to be continuously monitored and corrective actions are to be initiated. This must be on a continuous basis and there must be a separate team of members well trained to evaluate the performance and initiate corrective actions.

Training Supply Chain Employees

In case of organizations that involve a supply chain for the delivery of the services, it must provide a state-of-the-art training to all those who are connected in the supply chain. Every link in the supply chain is very important. Unsatisfactory performance by anyone will jeopardize the entire process of providing total satisfaction to the customers concerned. Training in the areas of customer care, customer approach, body language of service providers, customer communication, customer need assessment, customers complaint management, etc. are to be provided.

Relationship-Based Pricing Schemes

Introduction of relationship-based differential pricing scheme would encourage customers towards relationship building. Under this method, the prices charged from customers are dependent on their extent of loyalty. A customer, who makes frequent visits to a particular hotel, will be charged less as compared to the other category of buyers. Several hotels, airlines, hospitals, etc. practice this method of pricing. This method induces customers to go to one particular service provider for availing one kind of service and thereby the relationship would emerge and continue.

Identifying with Social Events and Concern for Societal Problems

An organization must come forward to identify itself with all social events with which the organizations and the customers are concerned. It may mean celebrating religious functions, national days, organizing or sponsoring sports meets, and cultural meets.

Effective Customer Communication System

Organizations must have simple, open, efficient customer friendly communication. The customer must feel free to contact the organization at any point of time and get any sort of their problem solved. Special training may be given to personnel working in the communication channel specially in being receptive, encouraging, positive, optimistic and friendly to customers. Each communication received should be recorded, classified and analysed as to their nature, and significance. The response from the organization to the complaints received should also be recorded. Communication system that is based on customer requirements would obviously contribute towards relationship development.

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Customer Complaint Monitoring Cell

In service process, there is always scope for service failure. In such a case, attending to the grievances is the first step towards service recovery. An organization should focus attention on establishing an efficient customer complaint monitoring cell. The role of the cell is to receive, register, and classify complaints, forward them to the respective departments to initiate action, and follow-up until the complaint is attended to the satisfaction of the customer concerned. Periodical meetings of members of customer complaint cell and officials of various functional areas are to be arranged, to discuss the volume and nature of complaints received. This would help in more effective coordination. Such attempts would enable better relationship with customers.

Developing Customer Satisfaction Index

An organization must attempt to build a customer satisfaction index and measure the extent of satisfaction of the customers in terms of various attributes of the service provided and the related aspects. This attempt will help measuring satisfaction quantitatively and further steps towards improving this may also be effectively initiated.

Focus on Preventive Actions

Factors contributing negatively towards customer relationship are to be identified and measures are to be taken towards preventing possible undesirable happenings. More attention should be devoted for order processing, delivery scheduling and the related aspects.

Concentration on Customer Satisfaction Research

A service organization must initiate research on customer satisfaction in terms of customers' level of satisfaction, factors contributing towards satisfaction, extent of customer retention, influence of competing firms on customer satisfaction, customer attitude towards the organization, their perception towards it and so on. This research should be carried out on a continuous basis and strategies towards improving customer satisfaction must be based on the research findings. This would enable the organization to find more appropriate approaches towards building customer relationship.

Focus Group

Focus group meetings should be organized frequently. The focus group must consist of representatives of various customer categories. Close and continuous interaction with focus group would provide deep insight into the customers' perception, their problems, their expectations and so on. Organization must consider these, while framing policies relevant to service process.

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Drawing the Attention of Competitors' Customers

One of the most important challenges of the service marketers is to draw the attention of the competitor's customers and make them buy their services. Concentration on its own customer helps an organization to survive, while concentration on competitor's customers helps the organization to succeed further in terms of its market share. The following techniques are normally practiced to draw the attention of competitor's customers:

- Offering additional incentives
- Extending augmented benefits
- Concentration on tangible and intangible rewards
- Special concessions on initial purchase
- Introduction of competitor's customers in the organizations' customer panel
- Special attention on order processing and execution
- Increase the expectations much more than what the customer receives from the competitor

Developing Total Care Programmes

Every organization that aims for building and maintaining a relationship may have to develop an excellent total customer care programme to suit the specific requirements of its target customers. The following guidelines help in developing suitable total customer care programs:

1. The firm should respond as quickly as possible for all enquires received, however unimportant those enquiries may be from the organization's viewpoint.
2. Concentration should be not only on the product satisfaction, but satisfaction on all related aspects of the purchase and consumption process.
3. The firm should come forward readily and quickly to compensate any loss faced by the customer.
4. It is important that the firms avoid irritation, annoyance, victimization at any point of time when dealing with customers.
5. The services offered by the firms should be easily accessible.
6. Added-value products and services may be offered along with the core services in order to make it distinctively better than competitors.
7. It is advisable to invest in the brand image of the firm.
8. It is important to communicate with the customers in order to boost their confidence in the firm.
9. Customers prefer to be given choices. Hence, firms may offer their services at various levels and in different price packages.

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10. Firms should arrange service-related educational programmes free of cost or with a minimum fee at a regular interval.
11. Service marketing is customer oriented. Hence, customer's point of view should always be acknowledged.
12. It is important to deal with each customer uniquely and give them impression of the same.
13. Customers endow more faith in a firm that stands by its moral, ethical, social and cultural values.
14. In a service firm, customers' inputs in the form of their responses/reactions play important role. It is important for the firm to incorporate this input in the most productive way possible.
15. The firms should encourage customers to participate in organizational customer-related activities.
16. It is important for the firm to make each customer feel that he or she is part of the organization.
17. Firms must be flexible and go by customer's specific requirements. The organization's rules, policies should never stand in the way of providing total customer satisfaction.
18. A service firm should develop opportunities to interact with lost customers.
19. The servicescape play an important role in service industry. It is important that high standards of cleanliness and hygiene are maintained.
20. During service process, customers might make some demands which cannot be easily met. It is important for the service providers to be extremely careful while rejecting a customer's request. The customer should be made to understand under what circumstances the request is being rejected.
21. It is important to assess customer satisfaction, dissatisfaction and reasons for the same at regular intervals.
22. A service firm must always keep innovating new ways to provide maximum levels of customer satisfaction.
23. Service organization must maintain visibility in the target market, by organizing or participating in events, programmes, etc.
24. In the absence of tangible evidence, a service firm relies on the customer's satisfaction to assess the success of a service provided. Hence, it is important to make sure that the customers feel that they have got value for their money.

The total customer care programme evolved by an organization after incorporating the said guidelines helps attract customers and works towards building long-term relationship with them. The words of Mahatma Gandhi on the significance of customers are the most appropriate in this context:

'A customer is the most important person in any business. A customer is not dependent on us, we depend on him. A customer is not an interruption of our work; they are the purpose of it. A customer does a favour when he calls but we are not doing him a favour by serving him. In fact, he is doing us a favour by extending an opportunity to serve him.'

Building Switching Barriers

In order to retain customers, organizations must come forward to build firm-switching barriers. In view of those barriers, switching may be made difficult and not worthwhile. Those barriers may include incentive schemes, relationship based pricing, additional services, attractive prize schemes, sentiments based schemes and so on. If the customers perceive difficulty in switching to another service provider, they would prefer to extend their relationship. For this reason, some organizations may even go the extent of employing unethical ways to build switching barriers.

Unethical Approaches to Build Customer Relationships

Nowadays, in an increasingly unethical ways are also normally adopted towards building customer relationship. However, students must note that these unethical practices are brought to their attention only for creating awareness and not for application.

Some examples of unethical ways of building relationship are given below:

(i) Imitating: Imitating the attributes and concepts of well-accepted brands in an unlawful ways.

(ii) Promises: Making promises to customers with no intentions to fulfil them.

(iii) Commitment: Developing misleading commitments and obligations.

(iv) Discrimination: Discrimination among the buyers in terms of quality and services.

(v) Forcing: Making tie-up sales with other highly preferred services/ products.

(vi) Communal Affiliation: Extending communal affiliation and drawing the attention of customers of selected community.

(vii) Negative Publicity: Indulging in negative publicity of competing firms.

Many such unethical methods are being practiced towards building relationship. However, a customer can be retained permanently only by means of quality products and services.

11.3.2 Managing Relationships

The approaches in marketing functions are constantly changing in tune with the changing challenges that are faced at the market fronts. Today, marketers consider

retaining of customers as a much more challenging job than acquiring customers in the context of growing competitive forces. Thus, the traditional transactional approach of marketing became insufficient to achieve the marketing goals. This scenario necessitated the emergence of a new approach, namely, relationship marketing.

The relationship marketing approach differs from the traditional transactional approach in several ways. The focus of transactional marketing approach is on individual transaction and does not concern continuous relationship with customers. The framework of transactional marketing does not contain a strategic long-term perspective. It focuses on tentative adjustment process as regards performing marketing functions. Customers are viewed as outsiders to the business. Under transactional approach customer's expectations, satisfaction, multiple influences on their decision-making process etc. are not given due significance. Very little attention is paid to customer services and customer commitments. The thrust of transactional marketing is on gaining more and more new customers rather than retaining existing customers.

In contrast to the transactional marketing approach, the relationship marketing focuses on continuous multiple transactions rather than isolated individual transactions. Relationship marketing aims at investing in the development of 'marketing network'. The logic behind such a network is that if effective long-term relationship is developed between a firm and its customers, the revenues too follow. The relationship marketing approach considers customers as insiders to the business and aims to build a long-term and never-ending relationship with them. The focus of relationship marketing approach focuses on developing hard core loyal customers with the idea of retaining them forever. A high degree of customer contact, commitment and services are maintained.

Transactional vs Relationship Marketing

The relationship marketing approach has gradually taken the shape of customer relationship management (CRM). Relationship marketing has a narrow focus not only on the customers but also, on the marketing functions of the organization concerned. On the other hand, customer relationship management focuses more widely on customers and on the entire functions connected with value creation and delivery chain of the organization concerned. Organizations have preferred the usage of the term customer relationship management (CRM) rather than relationship marketing.

Some select views of few marketing theorists, practitioners and researchers on relationship marketing are summarized below to gain more knowledge of the concepts of relationship marketing.

Relationship marketing attracts, maintains and enhances customer relationship as viewed by Leonard I. Berry (1983). He proposes the following sequence of activities for performing relationship marketing, viz, developing core

services to build customer relationship, customization of relationship, augmenting core services with extra benefits, enhancing customer loyalty and fine tuning internal marketing to promote external marketing success.

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Christopher et al. (1990) considers relationship marketing as 'a tool to turn current and new customers into regularly purchasing clients and then progressively move them through being strong supporters of the company and its products to finally being active and vocal advocates for the company'.

Relationship marketing is in essence 'selling by using psychological rather than economic inducements to attract and retain customers'. It seeks to personalize and appeals to the hearts, minds and purses of the mass consumers as viewed by James J. Lynch (1996).

According to Ian H. Gordon (1998), relationship marketing is an ongoing process of identifying and creating new values with individual customers and then sharing the benefits from this over a lifetime of association. It involves the understanding, focusing and management of ongoing collaboration between suppliers and selected customers for mutual value creation and sharing through interdependence and organizational alignment.

The customer relationship management in general is operationally defined by authors as 'a management process of acquiring customers by understanding their requirements, retaining customers by fulfilling their requirements more than their expectations and attracting new customers through customer specific strategic marketing approaches. The process invites total commitment on the part of the entire organization in evolving and implementing relationship strategies that would be rewarding to all concerned.'

The relationship marketing approach has great significance from the organizations' point of view due to the following:

- Reduction in customer recruitment cost
- Generation of more and more loyal customers
- Expansion of customer base
- Reduction in advertisement and other sales promotion expenses
- Benefiting customer selectivity approach
- Increase in the number of profitable customers
- Easy introduction of new products
- Easy business expansion possibilities
- Increase in customer partnering

The customers are also benefited by relationship marketing in terms of improved service quality, personalized care, reduction of customer stress, increased value for money, customer empowerment, etc.

Objectives of CRM

The objectives of CRM are given below:

- To evolve a set of committed customers and maintain it
- To seek prospective customers with maximum potential
- To encourage the loyal customers to buy a variety of services
- To update information about the change in a customer's life cycle
- To be aware of the fluctuation in the purchase pattern or a shift in brand preference
- To recognize the change in customers' needs and expectations
- To encourage customer attraction as well as retention
- To foster long-term customer-firm relationship

Importance of CRM

The CRM is considered important for the following reasons:

- CRM is not only a management approach; it is also a useful database that puts together information about the customers, the efficiency of market strategies and market trends.
- CRM also helps in understanding various patterns involving consumer behaviour by combining technology and human resource.
- CRM facilitates a constant interaction with the customers, which helps an organization modify or improve its service products.

Benefits of Customer Relationship Marketing

Some of the benefits of customer relationship marketing are as follows:

- It helps in fostering a customer-friendly brand image.
- It serves as an important tool in maintaining customer loyalty towards the firm and hence facilitates customer retention.
- It encourages a positive image of the service organization in the market.
- It serves as an important tool in tackling threats from the competitors by preventing customer acquisition.
- It facilitates word-of-mouth promotion of the service firm through satisfied customers, which in turn helps in bringing in prospective customers into the firm's folds.
- The satisfied customers form a loyal customer base which proves to the most productive for the firm in the long run.
- It helps the employee-customer relationship to evolve, which plays a very crucial role in service industry.

- It proves to be beneficial to the customers; it puts them at ease with the service firm, enabling them to share their inputs freely. At the same time, they avail numerous benefits that such a relationship entails.

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11.4 CUSTOMER RELATIONSHIP MANAGEMENT: OBJECTIVES OF CRM

Customer relationship management (CRM) has to be focused on aligning the business processes with customer strategies employed by the firm. Customer relationship management can be very useful if it works. It allows companies to gather customer data and identifies the most valuable customers over time and increases customer loyalty by providing customized products and services. It also reduces the cost of serving these customers and makes it easier to acquire similar customers. But a CRM can not only fail to deliver its intended benefits, it can also damage longstanding customer relationships. The biggest problem is the assumption that CRM is a software tool that will manage customer relationship of the company. CRM is the bundling of customer strategy and processes supported by relevant software for the purpose of improving customer loyalty and in the long term, the profitability of the company. It is important to understand accurately the concept and implementation of CRM, as it is one initiative that most companies will be tempted to pursue sooner rather than later.

- Create a customer strategy before implementing CRM – Customer relationship management is based on a rigorous segmentation analysis. It is designed to achieve specific marketing goals. CRM cannot be implemented without conducting segmentation analyses and determining marketing goals. Sometimes companies make the error of delegating customer relationship management to the chief information officers. It is important to have a strategy of customer acquisition and retention in place and see if a CRM software package would be helpful in implementing the strategy.
- Before CRM technology is installed, the focus of the organization must be oriented towards catering to the customer. If a company wants to develop better relationships with its more profitable customers, it is advisable for the company to have processes in place which will help meet customer needs in a better way. CRM also affects the existing relationships in and among various departmental structures, product, or even different internal structures and these structures should accordingly be restructured to focus on the customers. It is important to simplify customer interface and improve the old processes. So before CRM is rolled out, the company should have adopted customer centric philosophies, changed the structures and processes so that they are focused on customer needs and in general make the whole organization more sensitive and oriented to customer needs.

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- It is assumed that CRM has to be technology-intensive. Objectives of CRM can be fulfilled without installing a high-tech solution if a company has highly motivated employees who are aware of and sensitive to customer needs. Smart companies employ low-tech, mid-tech and high-tech solutions to implement their customer strategy. It may send a hand-written thank you note to customers after they have used their service; it may install a system to answer customer queries; and it may design products that will repair themselves. A company should start by adopting the lower-tech alternatives and gradually use more sophisticated technologies. Individual software solutions should be so sequenced that each step reinforces the next. A company should be doing whatever it can to strengthen relationships with customers – with or without technology.
- In their fervent quest to build relationships with their customers, companies end up building relationships with the wrong customers or build relationships with the right customers the wrong way. It is not prudent to try and build relationships with all existing and potential customers. A company may want to build relationship with affluent customers, but these customers may not want to build relationships with the company, and any effort to pursue them will alienate them further. It is important to tailor the communication method and the type of relationship to each customer that the company wants to pursue. Companies have made many mistakes in implementing CRM. They did not research what customers wanted and only focused on the processes they could perform faster. They assumed that the initiative did not require top-management involvement and cross functional coordination and that it could be handled by IT managers. They believed that the software would sell itself to employees and would automatically cause the required organizational change.

If companies can avoid these pitfalls, implementation of CRM can be profitable for the company as well as its customers. The automobile industry is one where examples of successful CRM implementation are plenty in number. General Motors for example has improved its CRM drastically to secure its prices. Renault is using integrated loyalty programs to identify brands that are securing positive reviews. Daimler Chrysler conducted a similar integrated CRM project with the help of a European call centre which collected data on sales canvassing and loyalty program. CRM within the automobile industry has become synonymous with ensuring maximum customer satisfaction. Contingent on customer requirements, CRM highlights the importance of catering to the needs of customers and ensuring maximum value added returns. Failure to do so will lead to dissatisfied customers. American Express and Barclays Bank have been able to improve customer profitability by no less than five percent resulting in a twenty-five to thirty per cent rise in profit.

11.4.1 Types of CRM

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Customer service has evolved into a primary functional area from an area that received only marginal attention. As a response to customer demands for responsive and reliable service, innovative methods and processes are being designed to strengthen service levels. These innovations include:

1. **Increased customer self-service:** A dominant trend in customer service is to make customers active participants in solving service issues. Retail industries practice this method whereby self-service ranges from customers placing grocery items into shopping bags and helping themselves out after payment. Further, customers who do need more information are being encouraged by companies to first visit certain company-provided information areas. Only once these channels have been exhausted are customers encouraged to contact customer service.
2. **Revenue generators:** Companies that have a customer service staff have arrived at the conclusion that people not just help others by solving customer issues, but they are also equally useful in convincing customers to purchase more. A basic function of customer service representatives is to ask customers if they would be interested in knowing about other services. If a customer shows interest then the call will get transferred to a sales associate. The final stage of this process involves the executive attempting the customer to purchase additional services thereby directly contributing to the revenue.
3. **Out-sourcing:** Establishing customer service stations overseas is considered to be one of the most coveted strategies through which companies aim to reduce costs. Also known as outsourcing, this allows companies to expand service coverage. For example, having several service outlets around the world would give customers the comfort of approaching a service personnel at any given time of day. To be able to move service to another country requires technological support but even these have raised concerns on two major fronts. These include: job cuts within the home country and the possibility of the appointed service personnel lacking sufficient training to manage customer queries. In other words, knowing the dynamics of the local market is crucial and the service staff should be well equipped to deal with customer problems. At an extreme scenario, a poorly managed shift to outsourcing can lead to a considerable decrease in customer satisfaction, thereby affecting sales figures.

11.4.2 Strategic Goals of CRM

Organizations geared to deal one-on-one with customers will need to conduct a thorough research of all valuable customers. One-on-one marketing means being able to change one's behaviour as per individual customer needs or what feedback is given to the organization. The dynamics of this kind of marketing are complex. Moreover training staff is quite different from making sure that the right customers

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are being identified and pursued (only then can products and services be reconfigured and sold as per the needs of the customer). Relationship marketing is grounded in the idea of establishing an interactive relationship with the customer; starting with the ones that are most beneficial for the organization. With each interaction, the organization learns more and becomes valuable to the customer. The ideal situation is one where the customer tells the company of some need and the company responds to it by customizing its products to meet the demand. The biggest advantage of this is when customers do not show the same degree of loyalty towards competitive firms. For them, the lessons that have already been taught to their current service providers cannot be repeated to another service provider. The process is time consuming and the same level of confidence is hard to forge. There are four important steps that service providers should bear in mind while implementing one-to-one marketing. They are as follows:

- **Identifying customers:** A fair number of customers must be identified by an organization as target customers. It is equally crucial to understand them and their needs in as much detail as possible. The portfolio should ideally contain more than the name and address, it must also include information regarding their preferences, likes, dislikes etc. In other words, a snapshot will not suffice; a company must strive to know its customer well if it wants to establish a long profitable relationship.
- **Differentiating the customers:** Customers are different in two ways. They represent different levels of value to the company and they have different needs as well. Once each customer's needs and values have been established, it is possible to tailor the company's behaviour to each customer in order to reflect those values and needs.
- **Interacting with customers:** It is important to be both cost-efficient and effective when the company is interacting with its customers. Cost-efficiency improves by directing customer interaction towards more automated channels. Providing information on its website would be more economical than supporting a call centre. Effectiveness improves by generating timely, relevant information which provides either better insight into a customer's needs or a more accurate picture of customer's value to the company. Every interaction with a customer should take place in the context of all previous interactions with that customer. A conversation should always aim to pick up the threads of the last conversation.
- **Customizing the company's behaviour:** In the final step, to lock a customer into a learning relationship, some aspects have to synchronize with the customer's individually expressed needs. This could either mean mass customizing a product that has been manufactured or it could also include reshaping some aspects of the service that is part of the product. This may include the way in which the invoice is prepared.

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It is possible that managers may dismiss one-to-one marketing as tedious and unrealistic. They may find the seamless integration of several data banks and other contact points, futile in generating a compact customer portfolio. Tracking each customer may appear risky as there is no surety of the customer buying the service. But the benefits emanating from successful implementation of relationship marketing should justify investment of time and money in the endeavour. One-to-one marketing increases cross-selling as customer's requirements are known more intimately, it reduces customer attrition as the company learns of increasingly more sophisticated and effective ways to serve the customer's evolving needs, it reduces transaction costs as the customer's requirements are known and can be promptly served, and it leads to higher levels of customer satisfaction as the company's total offering is tailored to are designed to cater to need specific behaviour.

Check Your Progress

4. What are the outcomes of the purchase decision process?
5. List two unethical ways of building switching barriers.
6. List two objectives of CRM.
7. State two benefits of customer relationship marketing.

11.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The internal marketing techniques are:
   - The organization's mission statement should be clearly formulated and communicated to employees.
   - Use of internal newsletters helps to develop sense of involvement and inspire confidence by reporting significant new development.
2. The service marketing triangle is divided into three components, namely, internal marketing, interactive marketing and external marketing.
3. External marketing is the stage where most of the marketing communication happens between the company and its customers. Various tools like advertisements, websites, brochures, etc. are employed for this purpose.
4. The outcome of purchase decision may be any one of the four, viz., (1) purchase, (2) rejection, (3) postponement, (4) search for substitutes.
5. Some examples of unethical ways of building relationship are given below:
   (i) **Imitating:** Imitating the attributes and concepts of well-accepted brands in an unlawful ways.
   (ii) **Promises:** Making promises to customers with no intentions to fulfil them.

6. The objectives of CRM are:
   - To evolve a set of committed customers and maintain it
   - To seek prospective customers with maximum potential
7. Some of the benefits of customer relationship marketing are as follows:
   - It helps in fostering a customer-friendly brand image.
   - It serves as an important tool in maintaining customer loyalty towards the firm and hence facilitates customer retention.

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10.6 SUMMARY

- Internal marketing is the application of marketing techniques to audiences within the organization. Each functional group in an organization engages in trade with other functional groups as though functions were external customers.
- Marketing of services requires interaction of a few specific components, that is, customers, staff and the organization. These three elements have to work together in tandem to deliver a service in a satisfactory manner.
- Christian Grönroos introduced a model in which he divides the service marketing into three components, viz, internal marketing, interactive marketing and external marketing.
- According to this model, internal marketing has to be managed by the company's leaders, the interactive marketing refers to the interaction between the clients and customers and the external marketing is what takes place between the company management and the customers.
- An organization's strategies towards developing and maintaining sustainable relationship differ from one organization to another depending on certain factors. These include nature of business, its size, its market share, nature of product type, volume of sales, geographic concentration, socio-economic status and life style of the customers concerned, competitors' strength, and so on
- All activities in the organization should be aimed towards customer satisfaction. Further, the performance of each service encounter must be objectively analysed and corrected in tune with the internal and external customers' expectations.
- It is also important that the service offered constantly provides value addition. Customer relationship is also augmented when the organization responds to requirements of the customers faster than its competitors.
- Customer satisfaction is brought about when the organization renders quality services in all three phases, viz, pre-sales, during sales and after-sales. An

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understanding of customer and competitors further enhances customer relationship.

- Attempts towards cost reduction should be done without compromising on the quality of the service. The paying ability and the purchase behaviour pattern of the consumer also need to be kept in mind. Several varieties of the same service at differing price level should be available. The organization should also proactively deal with customer dissatisfaction.
- Concentration on its own customer helps an organization to survive, while concentration on competitor's customers helps the organization to succeed further in terms of its market share.
- In order to retain customers, organizations must come forward to build firm-switching barriers. Those barriers may include incentive schemes, relationship based pricing, additional services, attractive prize schemes, sentiments based schemes and so on.
- Nowadays, in an increasingly unethical ways are also normally adopted towards building customer relationship. Imitating well-established brand, making false promises, developing misleading commitments, etc. are some of them.
- Relationship marketing aims at investing in the development of 'marketing network'. The logic behind such a network is that if effective long-term relationship is developed between a firm and its customers, the revenues too follow.
- The relationship marketing approach has gradually taken the shape of customer relationship management (CRM). Relationship marketing has a narrow focus not only on the customers but also, on the marketing functions of the organization concerned. On the other hand, customer relationship management focuses more widely on customers and on the entire functions connected with value creation and delivery chain of the organization concerned.
- A customer strategy should be created before implementing CRM. If a company wants to develop better relationships with its more profitable customers, it is advisable for the company to have processes in place which will help meet customer needs in a better way. A company should be doing whatever it can to strengthen relationships with customers – with or without technology.
- There are four important steps that service providers should bear in mind while implementing one-to-one marketing. They are identifying target customers, differentiating the customers, interacting with customers and thereby customizing its behaviour.

10.7 KEY WORDS

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- **Internal marketing**: Internal marketing is the application of marketing techniques to audiences within the organization. It refers to the involvement of the top management of an organization in training and motivating their employees to become 'customer conscious'. It includes all those activities that are planned in order to train the employees to this end.
- **External marketing**: External marketing is the stage where most of the marketing communication happens between the company and its customers. Various tools like advertisements, websites, brochures, etc. are employed for this purpose.
- **Transactional marketing:** It is a marketing approach that focuses on individual transaction and does not concern itself with building continuous relationship with customers.
- **Relationship marketing**: Relationship marketing is a marketing approach that focuses on continuous multiple transactions rather than isolated individual transactions. Relationship marketing aims at investing in the development of 'marketing network'.

10.8 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on internal marketing techniques
2. How can the dependency on human resources be reduced?
3. What are the techniques used to draw the attention of the competitor's customers?
4. Write a short note on relationship marketing.
5. What are the merits of using relationship marketing approach?

Long-Answer Questions

1. Discuss the factors affecting customers' relationship with the organization.
2. Explain the guidelines that help in developing suitable total customer care programmes.
3. Describe the difference between transactional marketing approach and relationship marketing.
4. Discuss the strategic goals of CRM.

10.9 FURTHER READINGS

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UNIT 12 MARKETING MIX OF SELECTED SERVICES

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Structure

12.0 INRODUCTION

Experiential marketing has become quite an integral part of the services marketing mix since the demand for high-quality hotel, tourism, hospital, education and entertainment services has increased over the years. With the surge in economic activities, the demand for luxuries has also risen considerably. Experiential marketing helps customers to interact and connect with brands on a personal level to make smart and informed purchase decisions. Experiential marketing means connecting customers with the services to increase brand awareness and sale propensity. It allows people to experience the services themselves rather than informing and telling them about it.

Experiential marketing helps connect with customers on an emotional level, inspiring them with the thoughts of deriving comfort and pleasure from the services. People feel a need for holiday and recreation as a change in their fast-paced life. Here, hotel services marketing, tourism service marketing and entertainment or recreational services marketing comes into focus since they would be the sectors providing their customers with a choice of holiday destinations, hotel accommodation while visiting the destination and the recreational activities they would undertake during their holiday.

Hospital service marketing has also come up as an important aspect of experiential marketing since people have started expecting high-quality services

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during their treatment in a hospital. They want attentive and friendly hospital staff along with convenient and comfortable accommodations during their recovery period. With the economic progress in India, there is a considerable rise in the number of educational institutions offering professional courses. However, with the increasing number of institutes, students, who are the target customers in this case, have many options to choose from increasing competition in this service sector. Therefore, the service providers of educational institutes have to use marketing tools and develop strategies to achieve a competitive edge.

12.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand personal care marketing
- Discuss entertainment marketing and the factors affecting its demand and supply
- Describe the marketing tools used for education marketing
- Explain the importance of communication marketing

12.2 PERSONAL CARE MARKETING

A widespread increase in disposable income and dual income families has lead to a rise in personal care services. As disposable income increases, households have additional money to either invest or spend, which naturally leads to a growth of personal care industry.

The personal care industry comprises consumer products and services that are primarily used for personal health, hygiene, nutrition, wellness, medication management, delegated nursing tasks that a baby, young child, old age people requires for his or her continued well-being and beautification.

Following are the examples of personal care services:

1. Healthcare - personal care services
2. Yoga- meditation centre
3. Nutrition –wellness centre
4. Spa-saloon- beauty parlour
5. Gym - fitness Centre

1. Healthcare - Personal care services

In healthcare personal services long-term maintenance or support services are encouraged to enable the individual to remain at home or return home rather than enter an inpatient hospital or a nursing facility.

Personal care services are provided to patients or individuals in home or community setting for various daily living activities, which enables an individual to maintain the health status.

Care is provided in various aspects:

- Monitoring of self-administered medications or other medical needs
- Assistance in functional skills necessary to live in the community or participate in the community activities.
- Instrumental activities of daily living
- Access to the community,
- Monitoring of health status and physical condition.

Personal care service marketing needs to focus on a few strategic decisions. They are as follows:

- Healthcare services should be consistent in branding
- Individual user experience needs to be evaluated continuously
- In case of online presence, build an interactive healthcare website or an app with chat-bots
- Use of Search engine optimization (SEO), email marketing, mobile marketing will tap potential customer and enhance existing customer engagement.

2. Yoga studio - meditation centre

The urban lifestyle is creating a lot of harmful impact on human health. People are eventually realizing the importance of nurturing both mental and physical health and well-being.

In urban areas, social media is becoming a powerful marketing tool for service providers. Service providers should engage their customer through contents of posts and images and may start a YouTube channel which could be another useful tool for yoga studio and meditation centre.

Service providers can create videos of daily yoga poses and its benefits, short meditations techniques, or nutrition tips, which will increase more followers.

3. Nutrition –wellness centre

Nutrition and wellness centre should create a library of interesting videos and post that content on social media. You may create profile for wellness centre on platforms such as Youtube, Facebook, Instagram, Twitter ,Tumblr and, Pinterest.

To maximize the **return on investment**, regularly share engaging content through post, videos and blogs across all social media platforms and create an **interactive online presence**. Once the customer will notice your business online

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and get a positive interactive experience, they are more likely to sign up for service offering over the competitors.

Service provider can manage all the social media tools through a hootsuit software and manage integrity in their communication.

4. Spa-salon- beauty parlor

Salon service marketing or beauty parlor marketing is a critical component to the success of your business. As the internet and technology are booming, it has become the need of the hour for businesses to maintain its presence online and offline.

- Offline marketing communication should be very clear in terms of what the services delivered are and the brand reputation of the company.
- Online communication should have consistency in content message across all platforms.
- Consistency is the key to developing a memorable brand, and one that clients would like to associate with.
- In personal caring marketing, unique customer experience is another important element along with the services offered.
- As salon and parlour services are intangible, brand building, brand reputation and consistency in services plays a crucial role in marketing strategy.

4. Gym-Fitness Center

There are numerous ways to do Gym- Fitness centre marketing. Digital marketing can promote gym and fitness centre by promoting personal care on different social media platforms. It is possible to promote gym-fitness center offers and promotions through social media platforms like Facebook, Whatsapp, Twitter, Instagram, email, etc.

Global Personal Care Market: Trends and Opportunities

The global market for personal care is expected to witness substantial growth over the coming years due to the growing disposable income of consumers and rise in dual income families, thus enabling them to spend on luxury personal care services.

Opportunities ahead for personal care marketing

The personal care market will witness a boom in the coming years due to the following reasons:

1. Rise in dual income families which makes them look for convenience.
2. Increase in health awareness.

3. Urban lifestyle causes stress; increasing demand for healthcare and wellness center.
4. Food habits due to fast moving life.

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To summarize, in emerging economies, facets such as growing spending power of consumers, rise in dual income families, presence of abundance international brands, and rapid urbanization is likely to help in the growth of the personal care market in the near future. Use of online and offline platform definitely boost the business potential.

12.3 ENTERTAINMENT MARKETING

The entertainment and recreational sector comprises of a varied range of establishments providing facilities for cultural, recreational and entertainment purposes for their patrons. The entertainment and recreational sector include:

1. Establishments preserving and exhibiting sites and objects of historical, educational or cultural interests.
2. Establishments involving the production, participation and promotion of live performances, exhibits or events meant for public viewing.
3. Establishments operating or providing facilities enabling their patrons to participate in their recreational activities or pursue their interests and hobbies leisurely.

The marketing of entertainment and recreational activities is one of the fastest growing sectors in today's marketing mix. Entertainment marketing faces the toughest competition since the economic growth of our country has enhanced the need for better and vibrant entertainment facilities. It helps connect with the target audience on an emotional level, generating profitable results and gaining loyal and regular clientele. Entertainment marketing comprises marketing of entertainment products like movies, music, art and theatre, promotional events, launches and moreover, using entertainment products to market other products or brands.

With the growth of the entertainment industry, there has arisen a great necessity for marketing each entity in a different manner. Movies require multiple promotions all over the country and sometimes even overseas depending on the budget and the reach. The music industry has also gained much recognition and acceptance from the public, making music video launches big marketing events. Art and theatre is also quite famous among the art-lovers as they prefer live theatre over movies, thus making its marketing quite exhaustive and complicated. The marketing required for the promotion of these entertainment entities require the services of various media houses and media agencies, who are experts at organizing

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public promotional events. Many brands use the allure of brand ambassadors to launch new products and brands making this another important facet of entertainment marketing.

In order to incur successful entertainment marketing, there should be a relevant connection between the entertainment proposition and the brand which can attract the target audience. The focus of entertainment service marketing is to connect the brand of the client with the promotional program and to develop techniques and strategies for connecting the brand with the marketing mix. Innovation and creative thinking are the drive behind entertainment marketing using elements like on-pack promotions, websites, in-store promotions, media coverage, medium of television for masses, digital elements, etc. This enables the entertainment services to prove as a popular technique for acceptance by the public.

Factors Affecting Supply and Demand for Entertainment/Recreational Services

Supply and demand for entertainment/recreational services are determined by the following factors:

- **Increase in discretionary time:** The growth of individual discretionary time is a major influence in the increased participation in entertainment/ recreational activities, i.e., increased supply and demand for entertainment/ recreational services. Modern human life is characterized by freedom from an agrarian economy, increased holidays, shorter work weeks and paid vacations. These factors combine to give people more opportunities for participation in recreation. This, in turn, has resulted in more supply and demand of entertainment services.
- **National influence:** A spectacular growth in the gross national product (GNP) and personal income has led to growth in expenditure on recreation/ entertainment, which, in turn, has resulted in more supply and demand of entertainment services.
- **Population trends:** The steady growth in the population and diversity has increasing impacts on the demand and supply of entertainment services.
- **Commodification of leisure:** Today, different types of play are developed in complex, expensive forms by profit-seeking businesses. Many giant conglomerates have taken control of huge corporations globally that run music, television and movie business.
- **Influence of technology:** Technology has played a vital role in providing new forms of recreation for the world population. For example, outdoor recreation has been using increasingly complex and expensive devices in activities like skydiving, hang gliding, boating, hunting and fishing. Computer dating provides new varieties of play settings and virtual realities. All these

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have led to an increased supply and demand for entertainment/recreational services.

- **Decline of rural areas and growth of urban areas:** The contemporary world is marked by the decline of rural areas, the growth of cities and industries, and the growth of suburbs and exurbs. Individuals today tend to augment travel time for ensuring a seemingly improved quality of life. Recreation and leisure play an important role in the environment characterized by population shifts. As a result, there have been increases in demand and supply of entertainment/recreational services.
- **Increase in health consciousness:** There has been a ever growing realization that modern life is usually inactive, plagued by tensions, and subject to a number of unhealthy habits, such as overeating, smoking and drinking. As a result, popular concern has developed about improving one's health, vitality and appearance through diet and exercise. According to health and fitness studies, the most successful fitness programmes are those that provide an ingredient of recreational interest and satisfaction. This has resulted in an increased supply and demand for entertainment/recreational services.
- **The changing family:** Over the last three decades or so, families have changed more than in the previous two centuries. Gone are the days of stay-at-home mothers, the single-income source, three or more children and marriage as a lifetime commitment. Today's societies are characterized by nuclear families, adoption with no marriage, wedding after the baby, single moms, two dads, etc. Consequently, the challenge for recreation and family service agencies is to determine how to serve the new permeable family. Increasing recreational/entertainment opportunities is one viable solution to this problem.

12.4 EDUCATION MARKETING

The main function of marketing is that it creates a demand for services in the market and pursues key prospects as well as existing customers. The extent of competition is widespread and exists in all kinds of service market segments. It has become a necessity for companies to obtain a competitive advantage over its counterparts. The educational service sector also faces a good amount of competition. The burst in population along with the various government policies for educational benefits and growth has increased the competition in this sector. Educational institutions which offer professional courses like MBA, BBA, etc. are also active participants in the competitive market. These institutions have also developed effective marketing strategies and plans to attract students and

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professionals alike. They seldom practice customized approaches towards marketing to survive the competition in the market.

The economic rise of India is a result of the highly-developed education system. The private institutions have an important role in the progress of education. The education market for private education in India was worth $40 billion in 2008 and increased to a whopping $68 billion in 2012. In 2009, there were 20 Central Universities, 215 State Universities, 100 Deemed Universities, five institutions established and functioning under the State Act and 13 institutes of national importance in India. Moreover, there are 16,000 colleges, out of which there are 1800 colleges exclusively for women, which function under the above-mentioned universities and institutions.

12.4.1 Marketing Practices and Tools Used by the Professional Educational Institutions

The education sector is purely a service sector and is heterogeneous, intangible, perishable and inseparable in nature. The service of education is based on the individual's reputation and the intangibility of the service. The quality of services in education cannot be compared and returned by the buyer once it has been availed. One of the unique features of educational services marketing is that it consists not only of the traditional 4Ps, namely product, price, place and promotion, but of the extended 3Ps (people, process and physical evidence) constituting the services marketing mix of 7Ps.

Marketing mix elements of educational services

Let us now discuss the 7Ps of services marketing in the case of educational services used by educational institutions as a tool of marketing.

1. **Service:** In terms of educational services, the services constitute intangible offers like services given by the faculty, the course, etc. and the product is denoted by the students receiving the service. Therefore, the product is a result of the services provided by the institute. With the help of the services and the products rendered by the service provided, the brand value of the education institutions is promoted and successfully marketed.
2. **Price (Fees):** The price refers to the fees paid by a student for the services provided by the educational institution and availed by them. The price for services in the form of fees charged from students is determined by various factors such as service quality, reputation of the institution, competition, placement, infrastructure, the location of the institute, private or public ownership, facilities provided, brand name of the institution, mode of education, etc. The price for services reflects its quality and the end product developed in accordance with that quality, which denotes the educational

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level of the students passing out of the institutions. The quality produced can be used as an education marketing tool by the institutions.

3. **Place:** Place denotes the location in which the educational institute is situated. This location is also known as the service centre. The institute situated in a Metro City or an urban area will have a greater competitive advantage than an institute situated in a rural area. Hence, place or location is also an important promotional tool for educational sector marketing.
4. **Promotion:** Promotion refers to all sorts of communication media used by a service provider in the education market. Promotion constitutes of various mediums like publicity, public relations, direct marketing, advertising, word-of-mouth, web marketing, point of sale, etc. The promotional mediums used by educational institutes consider only two elements of promotional marketing, which are advertising and web-based marketing. Out of all mediums used for promotion, the best tool is positive word-of-mouth for marketing of educational institutions.
5. **People:** In the context of education service marketing, people constitute the teaching fraternity and the rest of non-teaching community indirectly or directly involved with the services provided to the students in the educational institution. The retention and satisfaction of students with the services provided to them completely depends on the manner in which services are provided to them by their teachers. Teachers are known as service providers or facilitators of services. The growth and success of an educational institution, especially the professional educational organization, depends upon the effectiveness, dedication, competency, sincerity and devotion of their teaching fraternity. This element of the services marketing mix is the most direct and interactive component.
6. **Process:** The process of services marketing mix constitutes the mechanisms, procedures and flow of activities leading to an exchange of service value provided to customers. Service providers, who provide services to students, are an integral cog in providing a competitive advantage to the educational institute. The simplicity, of a service process along with being student-friendly, technology based, hassle free and understandable makes quite a good impression on the students receiving the service. For example, the length of time a student has to wait for a staff-member or the way a student is treated or taught by them makes quite a difference on the notion of the student about an institute.
7. **Physical Evidence:** Physical evidence is the direct environment in which a service is being rendered to students, allowing them to assess whether they have received proper services by the educational institution or not. For example, the physical facilities provided to the student, the physical

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environment in which the student receives the service and the infrastructure in which the service is being provided to the student. The physical environment includes a good parking facility, sports facility, swimming pool, state-of-the-art technology, good ambience, attractive building, gymnasium, transportation facility, hostel, indoor stadium, air-conditioned class rooms, laboratories, library, modern teaching aids, cafeteria, etc. All these factors constitute towards making the educational institution a marketable entity for services.

12.4.2 Other Popular Marketing Tools For Education Services

There are various other marketing strategies and tools used for educational services marketing than the 7Ps. The marketing of educational institutes can be further done by affiliation or approval of the institute and its courses from government authorities like MHRD, UGC or AICTE, lucrative job offers, institute's brand name and ranking, conducting admission tests like CAT, INCAT, MAT, etc. and the position of the institute in the education business. For example, if the CAT exam is administered in the institute, it gives out a good reputation and impression on the target students and their parents. The institutes hiring faculties from reputed universities like IIM, IIT, JNU or other famous overseas universities have an edge over their competition in the market. All of these factors can be used as marketing techniques and strategies for the benefit of the education service sector.

12.4.3 Gap Analysis

The marketing styles adopted by management institution are quite dubious, giving rise to a few vital questions – are the approaches adopted by them customer-centric? Is there any gap in customer services? Are these marketing styles student-centric, student-friendly or student-driven? In most of the cases it is found that these are just some of their own publicity tactics and their main motive of maximizing profit is still their central focal-point. Their focus is always on highlighting their positive aspects and strengths to attract maximum students towards their institute. Each institute is concerned with concealing their weaknesses and negative aspects from the target students. Keeping the concept of modern marketing in mind, an institute should do all they can to make customers their priorities and main focus in order to maximize their profits and enhance their reputation among students.

12.5 COMMUNICATION MARKETING

Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop, which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communications like publicity, sponsorship and word-of-mouth promotion to convey their brand ideas. The question is not whether a

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company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, sponsorship, etc. The real issue is how a company can use all possible or some communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Most of the time, a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. Therefore it becomes important to understand other methods of marketing communication besides advertising.

12.6 ELECTRICITY MARKETING

The establishment and recent developments of the electricity selling companies has made it a service enterprise. Apart from selling services, the electricity selling companies should also provide value-added services on the basis of the different demands of customers. First and foremost, the electricity selling companies need to meet the basic requirements like registered capital, business license, etc.

Key Problems in the establishment of electricity selling companies

The following specific areas should be focused upon and solved in the process of market designing.

- The participation of demand response resources: By introducing demand response resources, the end-users will be given an option to choose power providers.
- The optimization of users' power consumption mode: The electricity selling companies should improve the efficiency of electricity consumption by optimizing the mode of electricity consumption. Those companies that are able to improve electricity consumption efficiency should be rewarded.
- Profit mode of electricity selling company: The profit mechanism of electricity selling companies should be clearly outlined. This mechanism should be implemented strictly in order to ensure the rights of users.
- Fair competition in the market: Fair competition should be ensured and oligopoly features should be reduced as much as possible.

Key Strategies of Electricity Selling Companies

The following strategies should be adopted by electricity selling companies:

- **Change business philosophy:** The electricity selling companies should move away from the traditional philosophies and focus on providing users with higher quality services.

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- **Raise energy efficiency service level**: The electricity selling companies should provide energy efficiency services for users. In order to achieve that, the company needs to optimize load curve.
- **Provide integrated energy solutions**: The electricity selling companies should provide a variety of 'energy package' for users. Only then the energy efficiency can be improved and the users will be provided with integrated energy solutions.
- **Innovative business management mode:** For expansion of market, the electricity selling companies should make significant breakthroughs in certain aspects. Firstly, an energy information system should be designed; with the help of this system, the user's electricity consumption habits can be studied. Furthermore, real-time data feedback information, energy efficiency services can be optimized. Secondly, it is important to analyze users in a certain area of energy use and supply, including the classification of users, energy types and using price type.

To sum up, changing business philosophy, enhancing the energy service level, providing integrated energy solutions for users and innovating business management mode are some of the effective ways of enhancing service quality of electricity selling companies. Along with this, the electricity selling companies should also introduce advanced metering technology and communication technology.

Check Your Progress

1. What are the examples of personal care services?
2. What is the reason behind the growth of yoga and meditation centres?
3. State the reasons behind the growth of personal care market.
4. What are the challenges faced by educational institutions while marketing their services?
5. State the methods of marketing used for conveying brand messages.
6. What are the challenges of communication marketing?

12.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Some of the examples of personal care marketing are healthcare - personal care services, yoga- meditation centre, nutrition –wellness centre, spa-saloon- beauty parlour, and gym-fitness centre.
2. The urban lifestyle is creating a lot of harmful impact on human health. People are eventually realizing the importance of nurturing both mental and physical

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health and well-being. This is why there has been an increase in yoga and meditation centres.

3. The global market for personal care has witnessed substantial growth over the coming years due to the growing disposable income of consumers and rise in dual income families, thus enabling them to spend on luxury personal care services.
4. Education marketing often uses publicity tactics that focus on maximizing profit. Their focus is always on highlighting their positive aspects and strengths to attract maximum students towards their institute. Each institute is concerned with concealing their weaknesses and negative aspects from the target students.
5. Apart from advertising, companies use other methods of communications like publicity, sponsorship and word-of-mouth promotion to convey their brand ideas.
6. The real challenge for a company is how it can use all possible or some communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Most of the time, a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose.

12.8 SUMMARY

- The personal care industry comprises consumer products and services that are primarily used for personal health, hygiene, nutrition, wellness, medication management, delegated nursing tasks that a baby, young child, old age people requires for his or her continued well-being and beautification.
- Some of the examples of personal care marketing are healthcare - personal care services, yoga- meditation centre, nutrition –wellness centre, spa-saloon- beauty parlour, and gym-fitness centre.
- In healthcare- personal services long-term maintenance or support services necessary is encouraged to enable the individual to remain at home or return home rather than enter an inpatient hospital or a nursing facility.
- The urban lifestyle is creating a lot of harmful impact on human health. People are eventually realizing the importance of nurturing both mental and physical health and well-being. As the internet and technology are booming, it has become the need of the hour for Spa salon businesses and beauty parlors to maintain its presence online and offline. Consistency is the key to develop

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a memorable brand. Digital marketing can promote gym and fitness centre by promoting personal care on different social media platforms.

- The global market for personal care is expected to witness substantial growth over the coming years due to the growing disposable income of consumers and rise in dual income families, thus enabling them to spend on luxury personal care services.
- The Entertainment and Recreational sector comprises of a varied range of establishments providing facilities for cultural, recreational and entertainment purposes for their patrons. Entertainment marketing faces the toughest competition since the economic growth of our country has enhanced the need for better and vibrant entertainment facilities.
- Supply and demand for entertainment/recreational services are determined by the growth of individual discretionary time, national influence, population trends, commodification of leisure, influence of technology, and other reasons.
- Educational services marketing consists not only of the traditional 4Ps, namely product, price, place and promotion, but also the extended 3Ps (people, process and physical evidence), constituting the services marketing mix of 7Ps.
- Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are other methods of communications like publicity, sponsorship and word-of-mouth promotion which is to convey their brand ideas.
- Apart from selling services, the electricity selling companies should also provide value-added services on the basis of the different demands of customers. First and foremost, the electricity selling companies need to meet the basic requirements like registered capital, business license, etc.
- Changing business philosophy, enhancing the energy service level, providing integrated energy solutions for users and innovating business management mode are some of the effective ways of enhancing service quality of electricity selling companies.

12.9 KEY WORDS

- **Personal care market:** The personal care industry comprises consumer products and services that are primarily used for personal health, hygiene, nutrition, wellness, medication management, delegated nursing tasks that a baby, young child, old age people requires for his or her continued well-being and beautification.

- **Recreation:** Recreation refers to the activities which are done for enjoyment when one is not working.
- **Education marketing:** Education marketing creates a demand for services in the market and pursues key prospects as well as existing customers.
- **Communication methods:** Most companies erroneously focus almost exclusively on advertising to convey their messages. Advertising, publicity, sponsorship and word-of-mouth promotion are some of the methods commonly used.

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12.10 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What should be the focus of personal care service marketing?
2. Write a short note on entertainment marketing.
3. How has the educational service sector established its foothold in India?
4. What are the key strategies of electricity selling companies?

Long-Answer Questions

1. Explain the factors affecting supply and demand for entertainment/ recreational services.
2. What are the future prospects of global personal care market? Discuss.
3. Discuss the essentials of education marketing.
4. Describe the marketing practices and tools used by the professional educational institutions.

12.11 FURTHER READINGS

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UNIT 13 KEY SERVICES MARKETING

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Structure

13.0 INTRODUCTION

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We often use the services of various sectors like banking, insurance, telecommunication, transport and consultancies in our daily lives. What we do not fully comprehend is the vast amount of strategies and techniques which are developed by these sectors to provide smooth and hassle-free services to us. Marketing of services for these sectors is a very important task since there is a lot of competition among organizations, making it difficult for customers to choose the ones which would meet their service requirement and fulfill their needs to the highest capacity.

The surge in economies worldwide has capacitated people to demand high-quality services, which require companies to increase their personnel skills and enhance their service quality to deliver the services to customers according to their demand. New-age banking has brought with it customer-preferred services like security, speed and ease in banking services, along with the consultancy of services to be compounded. Insurance agencies are using banking channels to provide insurance services to a wider segment of customers called bancassurance, a fairly new concept in banking and insurance sectors. Many consultancy firms have come up to provide consultancy services to customers and organizations alike. Privatization in telecommunication services has improved the quality of service in lieu of international standards. Transportation service marketing is also significant as there is a growing demand for transportation alternatives due to increased population and strong competition in this sector.

13.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand marketing services adopted by banking sector and insurance sector
- Examine transport services and tourism services
- Discuss the marketing approach adopted by hotel, consultancy and hospital services
- Analyse the concept of market segmentation

13.2 BANKING SERVICES

The approach towards marketing by the banking sector was taken in 1950 in the west and after 1980 in Turkey. Banks are now inclined towards creating new markets due to the advent to new-age banking targeting marketing techniques to gain more customers. The techniques for marketing and planning were structured in banks in order to offer their new services effectively. The scope of marketing in

banks comes under the services marketing mix. The purpose of services marketing for banks is not only selling banking services to customers, but also to create a good and prospective image of the bank in their minds. However, financial marketing relates to the differences between the customer's judgement standards and the financial institutions. The scope for marketing is significant in the banking sector due to the following reasons:

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The bank's wish for higher profits: It is necessary for banks to increase their profits for creating new markets and developing their market shares in order to survive the strong competition and demographic chance levels.

Change in the demographic sector: The demographic sector greatly affects banking services since diverse population, in terms of composition and number, affect the attributes and mindset of customers.

Intense competition in financial service sector

Since the international baking trends have grown and developed over the years, there is quite an intense competition in the banking sector. Increased interest rates due to liberalization have also given rise to competition in this sector. The marketing strategies adopted by the banking sectors since 1950 are shown below in five stages:

- Marketing strategies focusing on specialization in specific areas.
- Marketing strategies based on close relationships with customers.
- Marketing strategies pertaining to marketing research, marketing planning and marketing control.
- Promotion oriented strategies for marketing.
- Reformist marketing strategies.

13.2.1 Marketing Mix for Banking Sector

The banking sector marketing activities begin with targeting the market where they want to offer their services. The bank must keep in mind the features of the market and market conditions before developing marketing strategies. As the marketing manager takes care of the variables under control of the bank, provisions should also be made for handling external variables. The factors affecting the banking sector market such as legal arrangements, competition and technological developments constitute the marketing mix for this sector.

1. Service

Nowadays, the banking sector draws revenues from servicing beyond selling money to the masses. Banking services are also intangible in nature like all other services in the service sector. The services involved in banking include money lending, depositing money and cheques along with money transferring procedures. The intangible services of banking are shaped into contracts and the structures of these services determine and ensure the success of a banking institution in the long run.

The new-age banking has brought with it customer-preferred services like security, speed and ease in banking services, along with the consultancy of services to be compounded.

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2. Price

Price is an important tool of the services marketing mix and is known by different names on the basis of the transactional exchanges taking place at the bank. Estimating banking charges on the services offered is one of the important functions of the bank. This enables them to maintain relationships with existing customers and attract new ones as well. Banking prices are named interest, expense and commission. Price creates earnings for banks while other services cause only expenditures. Price affects sales volume and profit directly, whereas the other marketing mix elements affect the volume of sales. Extreme caution should be taken while pricing and developing price policies since customers tend to be drawn towards competitors if there are any variations in prices. Cost plus, challenging leader and transaction volume base are the three methods of pricing used by banks.

3. Distribution

The banking services are complicated and quite complex due to its intangibility, where bank offerings delve into the mental intangibility along with physical intangibility. Persuading customers to benefit from its services is one of the significant features of the bank marketing. The participation, knowledge and capacity of customers are the crucial qualities facilitating the value of services and the benefits procured from them. Production and consumption are simultaneous in services while services once consumed cannot be re-consumed by customers. Various branches of banks use the traditional method of distribution in banking services making a personal interaction mandatory between the bank and its customers. This leaves direct distribution as the sole alternative of service distribution.

4. Promotion

Promotion is one of the most important service provided in the services marketing mix consisting of advertising, personal selling, sale of promotional tools and public relations.

(i) **Personal selling:** Banks prefer personal selling due to the nature of services involved in this sector. There are two methods of personal selling in banks. The first method entails the banker and customer interacting face to face at the bank's branch office. In this method, the entire personnel, which includes the banks' employees, managers and chief manager, partakes in the selling process. The second method involves the customer representatives visiting the customer at home. Customer relationship representatives specialize in offering banking services and shaping the relationship between the customer and the bank.

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(ii) **Advertising:** There are many goals to be achieved according to a bank's vision. These goals of developing advertising campaigns and use of media help obtain the following objectives:

1. Create a good image of the bank and its services
2. Emphasize efficient service
3. Persuade customers to examine all types of services offered by the bank
4. Change the attitudes of customers
5. Support personal selling
6. Introduce the services offered by banks to the customers.
7. Increase the use of bank's services

The advertising channels and media preferred by banks include television commercials, magazines, newspapers, outdoor ads, radio and direct posting. The initial step before any marketing venture is to identify and determine the target market and the medium which can best reach the target audience and would be economical as well. The following criteria should be kept in mind while media selection for banking services:

1. Cost
2. Choice of media for the target market
3. Market competition
4. Nature and characteristics of services
5. Message content

Advertisements need to be image-creating, educational and should provide the following information:

1. Market situation, future developments and government situations
2. Bank activities, new services, programs and results
3. Opportunities offered for industry branches whose development meets national benefits

(iii) **Public relations:** The function of public relations in banking is to:

1. Give important information about bank activities
2. Establish the most effective communication system
3. Creating a lasting relationship between bank and customer

It is interesting to note that banks of Turkey have their own magazines, publications and sponsoring activities.

(iv) **Promotional tools for selling:** Another promotional mix tool in banks is improved selling. Most popular improvement tools are rewarding personnel, special gifts, layout at selling point, premiums, seminaries, contests, etc.

13.3 INSURANCE SERVICES

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Insurance is a form of risk management used for hedging against a risk of an uncertain loss or a contingent. Insurance is the equitable transfer of risk for a loss from one entity to another in exchange for a certain amount of payment.

An insurance carrier is a company responsible for selling insurance to the policyholders who are the people buying that insurance policy from the insurers. An amount known as insurance premium is charged for a certain amount of insurance coverage. Risk management has developed as a study and practice for insurance carriers. The personnel involved in risk management are for identifying, appraising and controlling risk. The insurance process involves the insured person assuming a small loss in the form of payment and a guarantee to the insurance carrier in return for their promise to compensate the insured person if any financial or personal loss occurs for them. The insured person receives an insurance policy, which is a contract from the insurer, carrying details of the terms and condition on the circumstances under which they would receive financial compensation.

Insurance is known as the agreement between people for facing common risks and making small contributions at certain intervals towards the common fund. The main purpose of insurance is to offer people safety and security against any uncertain loss. Insurance marketing is the marketing of insurance services to create customers for buying insurance and drawing profits by satisfying them. The main focus of insurance marketing is to formulate an effective marketing mix for the insurance business enabling the organization selling insurance to gain maximum profits and thrive successfully.

13.3.1 Indian Insurance Sector

The Indian insurance sector has not been considered an investment medium for a long time; rather, it is taken as a means for saving taxes by some people. Indians only trust their banks for depositing their savings in the form of fixed deposits or any investment schemes available with them. Many people in India still invest in gold as a lifetime security due to the escalating gold prices in these times. In 1970, the business of Life Insurance was nationalized in India. The only insurance company to have a monopoly over the Indian Life Insurance sector is the Life Insurance Corporation of India (LIC). However, the Indian insurance market has become highly competitive due to the advent of private insurance companies in alliance with insurance experts overseas. In order to monitor insurance, the Insurance Regulatory and Development Authority Act (IRDA Act) was passed in 1999 by the Parliament of India. The President of India gave his consent for the IRDA Act in the year 2000.

We are surrounded by risk and uncertainty each day of our life. There is no control over the financial risks faced by people. Risks may also be in the form of death, theft, fire, accident, natural calamity, etc. Insurance acts as a financial aid

for people by providing them with coverage against risk with the savings deposited by them as security against certain risks. Insurance is significant in providing protection to people in case of uncertain losses. Insurance helps minimize any worry of losses due to death and destruction of property or assets and provides certain capital to people, since the money deposited with the insurance organization is invested in various productive ventures. The marketing of insurance is a part of services marketing. Insurance marketing is important for providing quality services to customers in order to guarantee their satisfaction with the services of the organization providing insurance. While marketing of insurance services, the service providers should think in the perspective of developing innovative promotional measures and let the prospective customers know of the quality of their positive contributions.

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13.3.2 Insurance Marketing

The main aim of insurance marketing is to attract customers and obtain maximum profits by providing satisfaction to customers through their services. Insurance marketing uses the tools of services marketing to create a marketing mix for selling insurance efficiently and effectively for the business to thrive and prosper.

Marketing —Mix for Insurance Companies

Insurance marketing is undertaken by insurance providing organizations to meet the needs of the target segment of customers. This business involves selling insurance services to people, because of which it is important to formulate a marketing mix for this purpose. The marketing mix for insurance purpose is formed on the basis of the 7Ps of services marketing, namely the service, its price, place, promotion, people, process and physical evidence. These 7Ps can be used for insurance marketing as mentioned below:

1. Service

Service denotes the insurance services provided by the organization or insurance carriers. Production or generation of services is intangible in nature. It provides an intangible service product. Services are sold by insurance sellers and bought by people who want to be insured against impending risks. Services are sold in an insurance organization making services their business and income generating product. The two leading insurance selling companies in India are the Life Insurance Corporation of India (LIC) and the General Insurance Corporation (GIC). These companies provide consulting and underwriting services along with insurance policies to customers.

2. Pricing

Pricing is an important constituent of the insurance sector marketing mix in terms of attracting key prospects and influencing customers in the target market. The rate of insurance premium is the key factor in determining the pricing for insurance services. Interest, mortality and expense are the main factors to be kept in mind

while determining rates of insurance premium. When changes occur in any of these factors, the insurance premium rates are revised.

- **Interest:** One of the significant factors determining the investment of people in insurance is the rate of interest. Most people are not interested towards investing in insurance if the interest rate provided are more than the perceived returns from the premium provided on insurance. People would not like to spend any service which does not provide them with maximum benefits or returns.
- **Mortality:** Mortality refers to the proportion of deaths to the total population. While deciding on pricing, the insurance providers also have to decide on the rate of mortality in the country. For example, in South Africa, the determination of the mortality rate is very important since there is an abundance of diseases there.
- **Expenses:** Expenses for insurance companies comprise of the commission to agents, cost of processing, registration and reinsurance companies. These expenses are later incorporated into the sum of insurance premium and the installment costs. This is an important and indispensible component of the pricing strategy.

3. Place

Place, as a part of the services marketing mix for insurance sector, is related to two significant components:

(i) Locating a branch

(ii) Managing the insurance personnel.

Insurance personnel management and agent management is necessary for maintaining the order and norms of service providing. This is also done to end the gap between the services promised and services provided to the customers. This will be beneficial for the end user or the customer seeking insurance services. In most of the service providing organizations, these gaps can make a bad impression on existing as well as prospective customers. Converting potential insurance policyholders to actual insurance policyholders is quite a complex process since it depends upon the personnel's professional skills. The insurance agents who act as links between policyholders and insurance carriers are quite unprofessional in nature.

4. Promotion

Promotional measures contribute greatly to the marketing of insurance sector services if they are developed efficiently. In India, the rural economy has dominance over the urban economy, due to which the illiteracy rate is very high. Personal as well as impersonal promotional measures are important for this sector's marketing. The insurance agents and the rural career agents have a high contribution in the promotion of insurance services. The skills of the insurance agents, rural career agents, branch managers and front line staff should be kept in mind while selecting promotional tools for insurance business promotion. Intensive training should be

given to these personnel for creating impulse buying for customers. Providing incentives to policyholders, advertising and publicity, organization of seminars and conferences are types of impersonal communication. Rural wall painting, exhibitions, publicity drive through publicity van units and participation in fairs or festivals are a few measures which can attract rural buyers and create impulse buying making them key prospects. These rural prospects can be converted to insurance policyholders quite easily.

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5. People

It is very important to understand the mindset of a customer for insurance marketing and design their services appropriately. The insurance business needs a very high level of customer interaction and this resource should be used quite efficiently to ensure customer satisfaction. Building strong relationships, training and development with regard to customers need to be considered by insurance marketers. Employee training along with the use of information technology for both the personnel and insurance agents are important tools to attract customers. The development of human resource skills can be undertaken by providing training, education and psychological tests. The company can also benefit from efficient insurance personal by providing incentives and other forms of motivation to ensure productivity and quality.

6. Process

The insurance selling process in the insurance sector should be customer friendly. The payment speed and accuracy is very significant as incompetence in this process could be a huge deterrent. The method of processing insurance in companies should be quite simple, easy to understand and convenient for customers. The schemes pertaining to installments of insurance premiums should be designed in a way to effectively serve the customer demands. The process of insurance service can become more efficient with the help of information technology and data warehousing. Information technology helps the channels of distribution maintain cost efficiency and in servicing a large number of customers. This brings down the overhead cost. Data warehousing helps in calculating and assessing the profitability and customer potential from various customer segments.

7. Physical distribution

Physical distribution is one of the key attributes accounting to the success of insurance companies. The insurance sector has gained a strong foothold in India today and has a good market reach and presence. Building a network for distribution is a very tedious, expensive and time consuming process. Even with the help of technology the process is not simplified, since the distribution network cannot be replaced by it. However, it offers better customer service and enhances the image of the business. Bancassurance is slowly gaining popularity in the insurance and banking sector. Insurance industry in India is now using banks and financial companies as a distribution channel for insurance. Financial services firms provide bank accounts, motor insurance, life insurance, home insurance and pension plans.

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In countries like France, banks provide sales for half of the insurance sector. In India, banks are forming alliances with insurance companies like SBI Life Insurance Company, Barclays- MetLife India, Axis Bank- MetLife India, ICICI Lombard General Insurance Company, etc. Physical evidence comprises reports, employee's dress code, signage, punch lines, other tangibles, etc.

Check Your Progress

1. What are the factors affecting the increasing use of marketing services in the banking sector?
2. What are the two methods of personal selling used in banks?
3. State two objectives of advertising campaign in the banking sector.
4. What are the criteria for selection of media for banking services?
5. What is the main purpose of insurance?
6. What is the focus of insurance marketing?

13.4 TRANSPORT SERVICES

Marketing of transport services is also an important element of marketing due to the increased competition in the market. Competition increased with the advancement in technology, with new products emerging in the market every few days. This has made marketing of services an important facet for increasing sales for a particular service of a brand. The automobile giants spend more than $21 billion on worldwide marketing, which enhances their sales and increases their revenue. Indian car owners have increased at an amazing rate in the last decade.

The purpose of branding and marketing for public transport is to guide the public transport companies to combat against competition and provide a more lucrative alternative than private transport. Increased and better-planned marketing of public transportation enhances more service buyers which ultimately benefits customers and the general public.

There are eight important steps for developing a successful marketing campaign for transport services marketing:

1. Build a strong brand

In order to build a strong brand, it is important for the transport system to define the core value and motive for its services. Majority of the transport sector works towards building a brand name by portraying a rapid, convenient, modern, reliable, safe and comfortable outlook towards providing services. Transport companies have to undertake an exhaustive market research to decide upon potential customer and market segments they should provide services to and build a successful brand-name,

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2. Sell your values

Each personnel of a transport company should be a brand ambassador for the company and should portray a good impression in the market about their services to customers. For example, in Montreal's transit agency, Société de Transport de Montréal, more than half of its 8,600 employees are in direct contact with their customers. Customer interaction at a personal level with the employees is important since it reinforces and maintains the brand and core values of the agency. The employees should be able to relate to the company's values and understand its need for providing services in order to incorporate personal contact and a strengthened relationship with the customers.

3. Get started early

People who might prefer using the public transport system even if they possess their personal vehicles, could be forced to use their own vehicle rather than the public transport because of the unfamiliar system of the boarding process, the route take by the vehicle or the fare system, etc. Here, marketing would be able to serve its basic purpose of providing the required information to interested customer segments before their journey. This would enable them to travel comfortably and retain them as future users of the same kind of service.

4. Systematize the information

One of the important roles of marketing is to systematize the information which has to be provided to customers. The use of transport medium starts not with the journey but with the information provided before it, so that a customer is able to study all the aspects of navigation, route, surrounding area, etc. Information kiosks, way-finding signage, informative brochures, etc. help in providing the required information to the customers regarding the transport service, making their journey or trip easier and more comfortable. This even helps in retaining customers for future trips.

5. Know what customers want

The perception of customers for using transport services is based on the following five factors:

- Safety and cleanliness
- Savings and cost
- Reliability
- Service hours
- Frequent service

The service providers must ensure that these factors are kept in mind while developing service marketing strategies for transport services marketing.

6. Control the narrative

Even though it is commonly believed that 'there is no such thing as bad publicity', it is better for the service providers to attract media coverage that can be controlled

and steered by them. Addressing problems or negative perceptions is more important than waiting for a reaction. This might be a better solution to salvage and solve the problem.

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7. Be responsive to customers

Since service industry is a customer driven industry, the channels of communication must be bi-directional in transportation. Feedback is an important aspect of services marketing, since customers are able to feel more involved and help personalize services. Therefore, there have to be some provisions for customers to provide feedback, either positive or negative. Educating customers helps them gather information and give feedback which can be incorporated by service providers for enhanced services to users.

8. Offer new ways to access information

The technology used for assessing information has changed in the last few years with the internet becoming a useful source of information for customers to assess the transport service sector. It is the function of marketing to make comprehensive websites or web pages about their services giving complete and detailed information to customers and help them make informed decisions. This process is inexpensive and can target a large segment of customers at the same time.

13.5 TOURISM SERVICES

The marketing concept can be expressed as the matching of a product with needs and desires of market. People should be offered what they want to buy. One must also develop the right product at an acceptable price. Potential buyers will see the product in the right way and will be stimulated to buy it. Finally, its purchase has to be made as easy as possible.

The key to successful marketing is to understand the market and create products to satisfy its needs. To know what people want requires the analysis of answers to the following questions:

Who are the people who travel? What are their characteristics, e.g, social class and profile, age, sex, marital status? What are the motivations of these different groups? What do they want? What are they looking for? Why are they travelling?

It is important for a government's tourism departments, in collaboration with the private sector, to adopt a complete marketing role apart from promotion to product development. It should also act as the catalyst in the formulation of the destination's marketing strategy. And it should also monitor the effectiveness of sales programmes, lending it support as and when necessary.

13.5.1 Purpose of Travel

People travel for two reasons:

- **By obligation:** Having to go somewhere on business, or feeling an obligation for religious reasons, or for reasons of family or friendship, or for medical reasons.
- **For pleasure:** Choosing to go somewhere for pleasure. For example, for pleasure activities like adventure, escape, discovery, excitement, sport or romance, or any other pleasure seeking motivations. These may differ from person to person. When taken altogether, they comprise leisure tourism.

The purposes of travel, according to the WTO, are leisure, recreation and holiday, visiting friends and relatives, business and professional, health treatment, religion/pilgrimages, and other. Travel for leisure is central to our understanding of tourism. It is linked to the growth in leisure which has accompanied social and economic progress. It is a major contributor to contemporary culture, a part of any modern concept of individual freedom of expression, and the subject of intensive and competitive international market forces.

Travel for leisure as a broad category can be broken down into mainstream tourism, special interest tourism and alternative tourism.

Although the overall market may become more diverse, its mainstream changes little. This solid major market segment, by far the largest, is made up of people looking for rest and recreation. They want comfortable holiday hotels and other types of smart tourist accommodation. Many may prefer to be in a resort complex offering a full range of shopping, recreation, restaurants, entertainment and other facilities and services. This is the traditional holiday market which changes only according to contemporary fashions, tastes and values. It can be segmented mainly on the basis of nationality, social class, spending power and age. The following are examples of special interest markets:

- Nature tourism in all of its specialized forms
- Trekking
- Fishing
- Cultural interest in various specialized forms
- Photography
- Deep-sea diving
- White water rafting
- River cruising
- Adventure tourism—based on camping expeditions
- Game watching
- Youth tourism—outdoors and adventure

These markets are formed through the common special interest. It is this interest which is more important than other characteristics, e.g., age, cultural background, etc. A passion for archery, photography, ornithology, deep-sea diving, military history or archaeology, may unite a highly heterogeneous group of people with otherwise dissimilar backgrounds and characteristics. Another market may be composed of naturalists. These may be people with a passion for such subjects as ornithology, etymology or botany. In a similar way, hobbies can be divided into a wide range of segments, for example, people interested in pastimes like painting, photography or ceramics. Another segment of the market may be looking for soft adventure. This kind of holiday will capture excitement and thrills, while providing a certain level of security and comfort, for example, a safari staying at comfortable game lodges with good food and comfortable accommodation. It will have elements of hardship and apparent risk to go with the thrills. Another segment may be composed of the sports enthusiasts eager, for example, for golf, tennis or fishing.

It can be questioned whether alternative tourism should exist as a separate category at all, or whether it should just be included as another special interest segment. Tourism marketers tend to talk about the new traveller. The new traveller is described as better educated, culturally aware, environmentally and culturally sensitive, and more curious and analytical.

Such people are looking for an alternative to the mainstream trends of the large mass tourism markets. They do not want modern hotels constructed and equipped according to international norms. Alternative tourism is usually based on small locally owned accommodation units, very much a part of the local community and reflecting local values and ways of life. Alternative tourism seeks to feature and protect local culture, and to involve the community in such ways that local people benefit fully. It is a tourism which aims to be better assimilated and more supportive of local needs and aspirations.

Alternative tourism promotes local cuisine, the use of local materials and handicrafts, and the development of a whole range of other participating tourism services, e.g., local folkloric performances, trekking, handicrafts demonstrations, and cultural and recreational activities. It also fosters the creation and development of tourism enterprises operated and owned by local people.

As already noted, these kinds of travel tend to be motivated by a sense of obligation. This obligatory travel is obviously driven by demand.

13.5.2 Concept of Demand in Tourism

Obviously, unless a destination possesses the natural, scenic and cultural attractions, it is difficult to create a demand. In this sense, tourism is always supply-led. A place has to be attractive to even consider developing leisure tourism.

For a destination to be demanded, given that it has the right natural and other attractions, requires a marketing approach. This means a complete analysis of all marketing opportunities, and the selection of certain markets. It means the

development of an appropriate product to satisfy these markets, with the pursuit of particular types of tourist.

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However, the capacity must then exist (in both resources and professional knowledge and skills) to provide facilities of a certain standard to satisfy tourists.

Sometimes, marketing strategies are chosen which are not workable, given the level of local skills and know-how. It can be seen that tourism is led by both supply and demand; by product and its markets.

One can talk of four levels of demand: basic, displacement, created and future. The basic demand is an existing demand which is not being completely satisfied, for example, there is a demand to stay in a destination but there are still too few hotels. Displacement demand occurs when people are persuaded to stop using one product in favour of another product which better fulfills their needs. For example, new and better hotels are opened in one destination and displace demand from other destinations. Created demand is when the creation of a new product creates a demand which did not exist before. For example, new hotels in a certain destination create a completely new demand. Future demand will be brought about by future changes and developments, for example, by increases in standards of living, by economic growth, increases in population, and by a general growth in tourism. Future demand eventually becomes a part of the basic demand. These levels to demand are well illustrated by the countries of South East Asia. The basic level of demand has tended to exceed the supply of the right kinds of facilities. Rapid regional growth has brought future demand a steady rate. As countries have added facilities, so they have displaced demand from other destinations.

Total demand consists of different groups of people, with different preferences, tastes and spending power. There may be lots of different market segments each seeking a particular product with distinctive characteristics. Demand has to be analysed and the market for a destination segmented, accordingly. The product should, then, be developed to meet the various needs of these segments. This means that the product will be segmented in a matching way. Each product segment may have distinctive characteristics and pricing to match fully the needs of its corresponding market segment.

Sometimes, when prices are lowered, it results in people buying more. When the sales of an item are sensitive to any changes in price, demand is said to be price elastic. When sales are insensitive and demand remains the same, it is price inelastic.

Even small changes in price may result in a substantial effect on demand (elasticity), while quite large changes may have little effect (inelasticity). Leisure travel of the popular mainstream type tends to be price elastic. In contrast, people who travel on business must travel regardless of cost; and this tends to be price inelastic.

The price elasticity in relation to marginal costs and the need to fill up empty space at the last minute, is an important factor. When prices are greatly reduced to

encourage last minute travel, the market tends to respond quickly. However, price is also linked to the image of a product. The value attached to a product, its prestige and desirability, may depend largely on how much one has to pay for it.

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Marginal cost is the cost of producing one more unit or as is the case in tourism, of accommodating or serving one more visitor. If the cost is low, it may be tempting to cut prices to fill up space on airplanes and in hotels. Such a strategy takes advantage of the price elasticity of demand. However, it may also cheapen the product, undermine the image, and antagonize people who have paid full price.

13.5.3 Market Segmentation

Countries market a tourism product according to its diversity. The product may subdivide into many different places and experiences. Separately, these may attract both large and small domestic and international markets. When confronted with this complexity of products and markets, there is a need to try and structure them in a sensible way. Large countries have a very diverse tourism product appealing to a huge spectrum of market segments; one can almost say a continuum of segments, for example, countries such as France or Italy.

However, to make sense of large countries, they may have to be broken down into regions, areas, counties, provinces, cities, towns and resorts. Each one has first to be studied separately. They are then all brought together and viewed as a whole.

The product is differentiated according to market segments and markets are segmented according to the entire range of products offered. This is how supply and demand are matched. Each market segment has to be well understood and analysed according to its characteristics. Each market segment represents people with different characteristics and needs. For example:

- Nationality or place of cultural origin
- Stage of life
- Social grade
- Psychographics
- Motivation and interests
- Mode of travel/distance travelled

Markets can be segmented in any way, using any criteria that make sense in identifying the characteristics and patterns of consumer behaviour and needs. There are three basic reasons for segmenting markets:

- To develop the product to satisfy specific needs
- To identify where and how to sell the product
- To judge if and how to mix different segments together.

The following describes typical sets of criteria in the segmentation of markets:

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It is obviously important for a resort to know whether visitors are, for example, Japanese, French or Italian. Each nationality has its own language and many distinctive preferences and patterns of behaviour.

A particular resort or hotel has to judge the extent to which it can mix nationalities. Few studies have been done that can assist operators in this decision. Operators know, by experience, that if they exceed fifty per cent of resort or hotel capacity for one nationality alone, say Japanese, it may be difficult for other nationalities to blend in. Many consider that fifty per cent is already too high. It is sometimes held that once fifty per cent is exceeded it is better to aim at 100 per cent for that nationality. Doing this, however, makes the resort dependent on one market only. This has obvious dangers.

Similarly, there may be dangers in mixing subcultures from the same country. There has to be a good understanding of the ways in which groups of people differ and how will they mix together. People from different regions, with variations in educational and cultural levels and incomes, may not go well together. It may depend on the precise proportions and the nature of the holiday. Gender is also an important variable, men and women may have some different travel preferences and needs.

According to each nationality and market, people may also have a different order of priority in the way they choose to spend their disposable income. An important criterion in the segmentation of markets is found in people's life cycle. The following is a typical breakdown based on the period of life reached and the likely travel preferences.

There are various similar approaches to the classification of the stages of life as, for example, by Philip Kotler. Age exercises many other influences on a person's motivations. Needs and tastes will change at each stage of life. Young single people want to do different things compared to older married couples with children, and elderly people will have developed altogether different preferences.

The breakdown, from the Institute of Practitioners in Advertising, is now used as the Social Grade Profile of the UK's National Readership Survey sample and serves as an example of social grade grouping.

The social grading was originally based on the Head of Household concept, but this has now been changed to Chief Income Earners. This has had the effect of shifting the social class profile more upmarket. People's incomes help to indicate the price they may be able and willing to pay for a particular product. Some groups, however, may be willing to pay different proportions of their discretionary income for travel. Pricing policy may be developed accordingly. Generally, however, one does not segment markets according to price level; one prices according to each market segment. The marketing mix as a whole is formulated to target particular segments.

In most countries, there are numerous sources of demographic data characterizing segments of society, according to criteria, such as age, sex, occupation,

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educational level, income and place of residence. These data allow for crude segmentation only, representing an inflexible way of categorizing society. Marketing specialists have tried to identify more complete ways of explaining consumer behaviour, and have used psychographics. This is a technique which relates personality to social values and lifestyles.

Different psychographic profiles may describe inward and outward looking people, adventurers and play-it-safers, leaders and followers and so on. They may also be based on studies with some validity, and may increase the understanding of the particular appeal of various tourist experiences.

Sometimes, however, the concepts tend to be too glib and fail to recognize all the complexities of human behaviour. People categorized, according to one particular profile, may suddenly demonstrate a range of behavioural inconsistencies.

The main examples of the psychographic approach are:

- Stanford Research's Values and Lifestyles Programme (VALS): These are four value groups divided into nine lifestyle categories—Survivors, Sustainers, Belongers, Emulators, Achievers, 1-am-Me, Experiential, Societally Conscious and Integrated.
- Yankelovich Clancy Shulman's Monitor: These are seven lifestyle categories: Self-explorer, Social Resister, Experimentalist, Conspicuous consumer, Belonger, Survivor and Aimless.

Both these approaches have been widely used internationally. In the United Kingdom, Young and Rubicam's 4Cs—Cross-cultural Consumer Classification reflects the VALS approach.

People will choose to travel by air, sea, rail or road, and they will travel independently—alone or with family or friends or in groups. Access can usually be described as follows:

- Long-haul access by air is 6000 km or more usually more than about seven hours flying time.
- Medium-haul access by air is between 3000 and 6000 km; about four hours flying time up to about six to seven hours.
- Short-haul access by air is under 3000 kilometers or up to about three to four hours flying time. This will usually include the major regional markets.
- Access by train—mostly national or intraregional.
- Access by road also mostly national or intraregional from neighbouring countries.
- Access by sea mainly from neighbouring and other countries in the region. This does not include cruise ships.

Tourists can be differentiated according to the mode of transport chosen, the distance travelled and whether they are travelling independently or in a group.

The various means of categorizing tourists illustrate the complexity of human behaviour. People share the common characteristics of the species. Beyond this, however, they appear to be infinitely variable. As noted, some of the differences originate in their genetic make-up and sex, major cultural influences, age and marital status, previous education and experience, economic and social status, spiritual and inner life, simple likes and dislikes, interests and passions, etc. One needs a constant flow of market information; keeping track of people, of who exactly they are, and what exactly they want and need.

Some of the psychographic ways of classifying tourists may seem, at times, to be too superficial or fanciful. However, they are still helpful in the review and discussion of tourist behaviour and in shaping future research projects.

13.5.4 Market Research

Successful segmentation, enabling clearly defined marketing targets, is assisted by interconnecting various kinds of data and criteria. As data is built-upon age, nationality, gender, occupation, income, motivations and interests, needs and preferences, lifestyles, stage of life, etc., the picture formed becomes clearer and specific.

Visitor surveys are conducted to supplement the market information obtained from routine tourism statistics. In designing a survey questionnaire, the following points should be noted:

- The purpose should be explained and people thanked for their participation.
- The meaning of questions should be clear and free of any ambiguity.
- It has to be easy to understand and complete.
- It should be well laid out, organized into clear sections, printed in large clear typeface allowing plenty of space to write answers and comments.
- It should be presented in a logical sequence.
- Questions should not lead the respondent, i.e., suggest or imply an expected answer.

The length of a questionnaire depends partly on the time people have to complete it. It also depends on people's goodwill and the time they are prepared to spend. If tour groups are being asked, they will generally spend some time in the departure lounge before their return journey. They may have to sit and wait for as long as 30 minutes—given that last minute or duty free shopping has been completed. This may be the ideal time to complete a questionnaire. Ideally, each questionnaire should be collected and checked by a survey assistant. Any part that is not filled out or unclear can be clarified immediately with the respondent.

The design of the questionnaire will also depend on the survey methodology and the size of the sample. As noted, the questionnaire has to permit the collection of accurate and useful feedback. It must also facilitate the subsequent correlation

and analysis of the data. The more extensive the comments and assessments made by respondents, the harder this is. It will provide complete answers for the following questions about the respondents.

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- Who they are and what they do
- Where they stayed
- How long they stayed
- What they did
- Where they went
- How much they spent
- And what they liked or did not and why

It is this last assessment that is essential in improving and developing the product. There are usually no other reliable sources for data on tourist expenditures. Banks and currency exchange agencies can give some data on foreign exchange earnings but not enough to build up an accurate and complete picture.

Surveys can help identify and define market segments. Knowledge has to be built up on each market segment, to provide information on how to develop the product and how to promote and sell more effectively. When segments are grouped together, the value of a visitor survey is seriously diminished. However, it may not be practical to define and isolate segments in too detailed a way.

The sampling method used can take account of a number of the major variables, for example, seasonality and time of the year, the nationality of visitors, age, and whether travelling independently or in a group. With mainstream leisure tourism, there may be pronounced differences between people of different nationalities and cultures. Some market segments can be determined by the reason for travel, for example, it is easy to identify and survey separately business and official travellers and tourists visiting friends and family.

Special interest visitors can easily be surveyed separately, since they will normally be found together in their related centres. It is, also, easy to identify backpackers and to keep them apart in a separate survey category; it is always best to separate different nationalities. Sampling has to be done in such way that results are representative of the total number of people under study. The likely error or deviation in survey results also has to be calculated. A random sample means that everybody under study has an equal chance of being included. If the sample is to be structured according to particular groups, a stratified random sample may be used. Generally, the more visitors surveyed, the more reliable the results. Surveys where people themselves choose whether to respond or not, such as guest comment cards in hotels are not considered as reliable sample as respondents are self-selected and therefore, not sufficiently representative.

A market information system is a system established to study market characteristics and trends. The results of desk research and data collection, the

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analysis of tourism statistics, and the findings from visitor surveys, will feed into this system. There are many published sources of data, for example, the results of country-specific studies and analyses of particular market segments. These are often prepared and published by specialized research companies. The travel trade press should also be followed closely to monitor various trends and new developments. It is possible to subscribe to a clipping service which will identify and clip all press items of particular interest. Through its statistics, surveys, and market information system, a General Trend Analysis (GTA) can be expected in close collaboration with the private sector, to follow all marketing trends. It should be able to keep in focus the various characteristics of its markets and visitors. However, a GTA would not normally be involved with research of a psychographic nature. This might be carried out by advertising agencies, tour operators or even large hotel companies. These various enterprises will be interested to establish a correlation between choice of holidays, destinations and facilities and particular lifestyles and profiles. Such studies may help to give a clearer idea of who buys what and why, enabling promotional and sales efforts to be better directed. Motivational research of this kind is often carried out through group discussions and indepth interviewing.

Where research is carried out by private sector interests, they should be encouraged to share the results with the GTA. While marketing information may give companies a competitive advantage, the GTA represents the interests of the sector as a whole. One should try to reconcile any conflict between these two sets of needs.

Household surveys are conducted in many countries to establish consumption patterns and trends. Some surveys concentrate on travel and tourism, for example, the United Kingdom Tourism Survey organized by the four UK national tourism boards.

13.5.5 Trends in International Tourism

Tourism demand has grown rapidly throughout the 1970s and 1980s, with world international tourist arrivals increasing from 160 million in 1970 to 405 million in 1989. This growth has not been steady, and in fact for 1982 and 1983, a decline in tourist arrivals was recorded. However, in general, tourism demand has stood up well to economic pressures. For example, international tourist arrivals continued to grow in the mid-1970s in spite of the massive oil price rises and supply shortages that occurred. After a sluggish growth followed by decline in the early 1980s (the 1983 level of world international tourist arrivals was below the 1980 level), the growth in tourism demand recovered and accelerated over the 1986–88 period.

International tourist arrivals were grouped by region in 1988. It can be seen that Europe dominates in terms of international tourism, attracting 64 per cent of world arrivals. The Americas attract 19 per cent of world arrivals, and are followed by East Asia and the Pacific (11 per cent), Africa (3 per cent), the Middle East (2 per cent) and South Asia (1 per cent).

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Although Europe and North America together account for nearly 80 per cent of worldwide international tourist arrivals, their market shares have declined during the 1970s and 1980s. Market shares of developing and newly developed countries, particularly those in the East Asia and the Pacific region, have seen a sharp increase. Factors that have contributed to include the opening up of new air routes, provision of relatively cheap inclusive tours and massive increase in outward international tourism from Japan which has resulted in increased intra regional tourism. Most international tourism is intra regional— it originates in countries of the same region but this varies considerably with the destination region under consideration. For example, whereas about 80 per cent of arrivals in Europe and North America are intra-regional, this figure reduces to about 25 per cent for Africa. This partially explains why Europe and North America have high market shares of world arrivals. High levels of disposable income in Europe and North America facilitate international tourism, most of which takes place within the regions. However, country size and ease of access to other countries also affects the level of international tourist arrivals. Thus, a substantial part of the discrepancy between Europe's market share and that of the Americas may be accounted for by the following:

(i) Europe contains several relatively small countries.

(ii) Much intra regional international tourism within Europe takes place between neighbouring countries with common land borders.

By contrast, the USA is an enormous country with great variation in climate, scenery, facilities, and so on. Hence, a domestic trip within the USA, which involves crossing a state boundary, may well be equivalent of an international trip within Europe. The size and varied nature of the USA compared with individual European countries result in much of US's domestic tourism being equivalent of much international tourism within Europe.

The major tourism generating countries are ranked according to international tourism expenditures. In 1987, West Germany was ranked first with a total expenditure of more than $23 billion, followed by the USA, the UK, Japan and France.

The major tourism receiving countries are ranked according to international tourism receipts. In 1987, Spain was ranked first with total receipts of nearly $15 billion, followed by the USA, Italy, France and the UK. The USA, UK and France, thus, feature in the top five countries as both origins and destinations, when demand is measured in terms of tourist expenditures/receipts. West Germany and Japan (countries characterized in recent history by current account surpluses mainly achieved through the export of manufactured goods) are primarily generating countries, and Spain and Italy (traditional Mediterranean destinations) are primarily receiving countries.

The definition of the term is wide-ranging and when tourism demand is broken down according to the purpose of visit, the following categories can be

identified: holidays, business trips, visits to friends and relatives and miscellaneous visits. About 70 per cent of international tourist arrivals throughout the world are for holiday purposes, and of the remaining 30 per cent of tourist trips, approximately one-half are made for business purposes.

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Holidays are the most important tourism market. This market is characterized by freedom of choice on the part of the individual in terms of selection of destination, transport mode, and so on, and by strong competition among the various segments of the tourism industry (including destinations) that supply the market. Unlike business travel, where the existence of business contacts largely determines the destination to be visited, in the case of holiday tourism, the individual can select from among a wide variety of destinations. Thus, considerations such as price become very important. Holidaymakers can be divided into those who are conservative and risk-averse and those who wish to try something new and are willing to accept some risk. The conservatives tend to take the same type of holiday year after year often returning to the same country once they have found something they enjoy (and even to the same resort or hotel), whereas the risk-takers seek out new experiences in terms of climate, culture, scenery, and so on.

Different countries are marketed for the different types of holiday attractions they offer in mass-market. For example, Mediterranean destinations offer 'sun/sea/sand holidays', whereas Austria and Switzerland offer 'lakes and mountains holidays' which concentrate on scenic attractions in the summer and skiing holidays in the winter. There are now also many 'exotic' long-haul destinations on offer to places such as South America and Southeast Asia, where the emphasis is very much on experiencing something different. A range of special-interest holidays include pony-trekking, rambling, cycling, yachting, bird watching, farm tourism, canal cruising, and so on. The short-break sight-seeing holiday is also proving increasingly popular. Figure C15 depicts cycling as a special-interest holiday; Figure C16 is about a few tourists bird watching.

13.5.6 Business Travel

Business travel is an important segment of the tourism market, and in certain sectors it plays a major role. Although only about 15 per cent of tourist arrivals are for business purposes, tourist spending on a business trip is likely to be much higher than those on a holiday, so the contribution of business tourism to the total will be higher. Furthermore, as far as transport is concerned, business travellers comprise a disproportionately high proportion of air travellers (50 per cent). As far as accommodation is concerned, they comprise a disproportionately high proportion of hotel guests, particularly in the four and five-star range (60 per cent).

The business travel market is characterized by relative lack of seasonality, last-minute booking and inelastic response to price a to the extent that seasonality does not exist at all. The demand for business tourism is likely to be lower at times of peak holiday demand, because the businessmen themselves may well be on

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holiday. An important attribute of short business trips is that they usually take place during the week, so hotel accommodation tends to be used little for business purposes at weekends. As business travel is often large town/city-oriented, hotels in these business centres usually offer very attractive rates at weekends to encourage holidaymakers to stay. Many business trips are booked only a short time ahead and business travellers usually wish to spend a minimum amount of time travelling. This means that business tourists require maximum flexibility. In particular, they do not want restrictive conditions attached to flight tickets and are prepared to pay a premium price for this. Furthermore, they usually require good quality accommodation, both in order to be able to function well and also to create the right image with the business contact being visited.

A particular form of business tourism is conference/congress/convention tourism, and considerable attention has been focused on this form of tourism in recent years with the development of large conference centres built purposely in many cities and seaside resorts. However, most conferences take place in hotels and educational establishments (universities, colleges). Conference tourism is not as predetermined as other forms of business tourism, conference organizers can choose the location for the conference as on the basis of facilities, price, etc. Thus, conference destinations are in strong competition with each other to attract conferences. Friel identifies the following criteria, which are considered desirable if a conference destination is to be successful:

- It should be attractive to tourists.
- It should have a variety of meeting facilities.
- It should have a range of good accommodation.
- There should be good access by air/road/rail.
- There should be a civic commitment to hosting delegates.
- There should be a coordinated approach to destination marketing and visitor servicing.

Tourists visiting friends and relatives tend to spend much less per day than holidaymakers. They often stay with their friends/ relatives and, therefore, do not make use of commercial accommodation. Similarly, daily expenditure on food and drink in restaurants, etc., is likely to be considerably lower than would be the case for holidaymakers.

Furthermore, this category almost certainly generates additional local spending on food, drink, attractions, and so on. In fact, tourists visiting friends and relatives may face higher travel costs than those incurred by inclusive tour holidaymakers, who benefit from the bulk-purchasing power of tour operators.

13.5.7 Seasonality in Tourism

'Seasonality' refers to the tendency of tourist flows to be concentrated into relatively short periods of the year. In Europe and North America, for example, the summer

months of July and August are when a large proportion of the population goes on holiday. This is mainly due to natural features, such as climate, but also partly due to institutional features, such as restrictions on when employees may take leave and school holidays.

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In recent years, ski holidays have grown enormously in popularity, which spreads the tourist season into the winter months for appropriate destinations. Furthermore, many holidaymakers now go on *winter sun* holidays. Seasonality causes particular problems for employment, in that workers employed in the tourism industry for part of the year may have no opportunities for employment during the rest of the year. In addition, the seasonal nature of employment inhibits training and career progress. Seasonality can result in overcrowding and overuse of facilities in destinations during part of the year, while for the remainder of the year facilities may be considerably underused or not used at all, resulting in inefficient use of resources and loss of profit potential.

There are four principal strategies for managing seasonality: changing the product-mix, market diversification, differential pricing and encouragement/ facilitation by the state of the staggering of holidays. Changing the product-mix involves the creation and marketing of new, different attractions. Thus, a summer beach resort may set out to attract the conference trade in the off season, or it may decide to stage some special event, or to promote special-interest holidays that would be appropriate out of season.

The construction of all-weather facilities, such as covered leisure complexes for year-round use are a means of extending the season. A highly successful example in Northern Europe is the development of Centre Pares, where accommodation is clustered around an all-weather leisure area incorporating wave-pool, water slides, and so on. Diversification of the market to reach new potential customers may also be used successfully to counteract the effects of seasonality. North Americans, particularly from the northeast of USA and Canada, have been travelling to Florida for winter holidays for considerable time. The desire to escape the harsh winters for the warmth and sun of Florida has been a strong pull, and many retired North Americans spend several months there each winter. More recently, however, Florida has been marketed as a summer destination to UK residents, and the British have travelled there in increasing numbers. Pricing policies can also be used to reduce seasonality. By the introduction of price reductions in off-season, tourists can be encouraged to take holidays during this period. Similarly, if tourist resorts become overcrowded during peak periods, price rises can be used to reduce the seasonal congestion. State initiated measures to stagger holidays can also be successful in reducing the seasonality problem, for example, the staggering of school summer holidays over a longer period and the encouragement of the staggering of industrial holidays.

In spite of efforts to reduce seasonality in tourism, only limited success has been achieved. The prime importance attached to the weather by many holidaymakers means that only a certain amount of flexibility is possible.

13.5.8 Measuring Tourism Demand

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Tourism demand functions embody the relationship between the demand for international tourism and those factors that influence this demand. They are economic relationships that, when estimated, permit the impact of each of these factors on tourism demand to be identified. Clearly, the group of variables that influences international tourism demand will depend upon the purpose of visit under consideration. For example, the demand for business travel will depend upon where major business centres are located, whereas the demand for visits to friends and relatives will depend upon where close historical and/or cultural, ties exist. As the majority of international tourist trips take place for holiday purposes (approximately 70 per cent), and it is only for holiday trips that individuals are completely free to choose the destination, transport mode, and so on, we shall just concentrate on demand functions that explain the demand for international holiday tourism.

The demand for international tourism is measured in terms of the number of visits to a foreign country, or in terms of expenditure by visitors in the destination country. Occasionally, however, population features as a separate explanatory variable rather than demand and is expressed in per capita form.

Income is also included as an explanatory variable; as holiday visits are under consideration, the appropriate form of measuring this variable is personal disposable income.

Price is usually included in demand functions. For international tourism, there are two elements of price: costs incurred in reaching the destination, and costs to be met while at the destination. Transport cost can be measured by using representative air fares between the origin and destination for air travel and representative ferry fares and/or petrol costs for surface travel. Transport cost should feature in the model in real terms in origin country currency.

It may be possible to measure the cost of tourism, for a particular destination, with the help of data on cost of living. Otherwise, the Consumer Price Index in a country may be used to represent tourists' cost of living. Martin and Witt have shown that this is likely to be a reasonable proxy for the cost of tourism variable. Tourists' cost of living should be specified in real terms in currency of the country visited. It is suggested that the exchange rate should also appear as an explanatory variable influencing international tourism demand; although exchange rates are already incorporated to some extent in the other price variables. In practice, people may be more aware of exchange rates than relative costs of living for tourists in the origin and destination countries, and thus pay attention to this price indicator.

Economic theory suggests that the prices of substitutes may be important determinants of demand. Potential tourists compare the price of a foreign holiday with the price of a domestic holiday while making a decision. However, they also compare the costs of holidaying in a particular foreign destination with the costs involved in visiting other foreign countries. Thus, substitute travel costs and substitute

living costs may be important determinants of the demand for international tourism to a given destination. Substitute prices can be accommodated in the model through the inclusion of:

(i) A weighted average substitute transport cost variable

(ii) A weighted average substitute cost of living variable

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The weights should reflect the relative attractiveness of the various destinations to residents of the origin under consideration, and are often based on previous market shares.

Dummy variables can be included in international tourism demand, to measure the impact of one-off events. These are specially constructed variables, which take the value when the event occurs and not otherwise. For example, the 1973 and 1979 oil crises are likely to have temporarily reduced international tourism demand on account of the resultant uncertainties in the world economic situation. Tourism flows to Greece were lower than expected in 1974 because of the threat of war between Greece and Turkey as a result of the Turkish invasion of Cyprus. When governments impose foreign currency restrictions on their residents, this is likely to reduce outward tourism, as was the case in the UK between 1966 and 1969. Foreign currency restrictions can also alter the distribution of foreign holidays. Measurement of the impact of mega-events (such as the Olympic Games) on tourism flows through the use of dummy variables has already been discussed.

Another trend that may be included to measure international tourism is that of a change in the popularity of a destination country over a period of time. This may be considered as a result of changing tastes but it also captures the time-dependent effects of all other explanatory variables, such as changes in air service frequencies and demographic changes in the origins.

Governments through tourism departments often spend considerable sums on promoting their countries as tourist destinations, as do carriers, particularly airlines. Hence, promotional expenditure is expected to play a role in determining the level of international tourism demand and thus should feature as an explanatory variable in the demand function. The appropriate form of the variable is promotional expenditure for the destination in the origin.

A major problem regarding the inclusion of promotional variables as determinants of tourism demand relates to difficulties in obtaining the relevant data. The reason for this may be attributed to the fact that the impact of advertising on tourism demand may be distributed over time, so that advertising in a given period is likely to influence not only demand in that period but also in subsequent periods. In addition, the effectiveness of a given level of advertising expenditure in influencing the level of international tourism demand may vary across media.

A lagged dependent variable is sometimes included in tourism demand functions to measure habit persistence and supply rigidities. It has been found that when tourists visiting a particular country have a positive experience, they tend to return to that destination. Furthermore, knowledge about the destination spreads

through word of mouth. In fact, word of mouth recommendation plays a more important role in destination selection than commercial advertising.

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Another variable that needs to be given due consideration is supply constraints which include shortages of hotel accommodation, passenger transportation facilities and trained staff. However, once the tourist industry to a country has become highly developed, it is unlikely to dwindle rapidly. The hotel industry will have to invest large sums of money in the country and contacts with tour operators, airlines and travel agencies will have to be built up.

The tourism demand function may be estimated by regression analysis using historic data. The empirical results obtained show the estimated quantitative relationship between foreign holiday demand and the influencing factors. The estimation process is as follows:

- Specify the demand function in mathematical form (linear, or more commonly log-linear).
- Assemble data relevant to the model.
- Use the data to estimate, by regression, the quantitative effects of the influencing variables on demand in the past.
- Carry out tests on the estimated model to see if it is sufficiently realistic.

When the tourism demand function is specified in log-linear form, a resulting characteristic is that the estimated coefficients may be interpreted directly as elasticities. It is necessary to evaluate the parameter estimates obtained in a regression model, in terms of sign and magnitude, in order to determine whether these estimates are theoretically meaningful. Economic theory imposes restrictions on the signs and values of the parameters in demand functions, and the estimates need to be examined to see whether they satisfy these constraints. For example, foreign holidays are 'superior' goods and thus positive income elasticity is expected. In fact, most foreign holidays are regarded as 'luxuries' and in such cases the magnitude of the income elasticity is expected to exceed unity. Similarly, the own-price elasticity of demand should be negative and cross-price ties for substitutes, positive. Changes in consumer tastes may move towards or away from a particular holiday and therefore, the variable could have a positive or negative coefficient. The promotional expenditure and lagged dependent variable coefficients are both expected to be positive. If an estimated parameter has an incorrect sign or does not satisfy the restrictions on magnitude, it should be rejected, as it is theoretically implausible. In general, an unexpected parameter sign or size is the result of deficiencies in the model.

The empirical results may also be evaluated in terms of statistical measures of accuracy and significance of the forecasting equations. For example, a test can be employed to examine the hypothesis that a particular explanatory variable coefficient is significantly different from zero, or whether the estimated value may simply have been generated by chance. If the hypothesis that a coefficient is equal

to zero is true, then the corresponding explanatory variable does not influence the dependent variable and should be excluded from the tourism demand function. However, when a parameter is not statistically significant, this does not prove that there is no relationship between the explanatory and dependent variables; the insignificance of the parameter may be a result of statistical problems. Prior belief plays a vital role in the decision regarding which explanatory variables should be retained in the equation in view of the statistical evidence. If there are strong theoretical grounds for expecting a particular explanatory variable to influence the dependent variable and a 'correct' coefficient sign is estimated but the parameter is insignificant, the explanatory variable should not be eliminated from the equation, as weak support has been obtained for the hypothesis. If the correct sign is estimated for a coefficient and is statistically significant, this provides strong support for the hypothesis that the variable has an impact on the dependent variable.

The magnitudes of the various elasticities are of interest. For example, if the demand for tourism is price inelastic, then a price reduction reduces total expenditure on tourism and price rise increase expenditure. If, however, the absolute value of the price elasticity exceeds unity (that is, demand is price elastic), then a price reduction increases expenditure and a price rise reduces expenditure. Clearly, therefore, the impact of a price change on total expenditure on the tourism product depends critically on the magnitude of the elasticity.

Martin and Witt have estimated a model for tourism, for four countries, West Germany, USA, UK and France, using data for the period 1965 to 1980. It is clear that the importance of a particular variable in explaining tourist flows varies considerably with the origin-destination pair under consideration. Building models for USA-outward tourism proved difficult, with the result that several of these are rather simplistic, and in general contain fewer explanatory variables than the models for UK outward tourism. The main factors affecting tourism demand by USA residents appear to be income and absolute costs. While in most overseas holidays seem to be regarded as luxuries, Italy is an exception. Roman Catholics feel an urge to visit Italy. The price elasticities also vary considerably. In terms of tourists' living costs, tourism demand is price elastic for travel from the USA to France and West Germany, but price is inelastic for travel to Canada and the UK. In terms of transport costs, demand is price inelastic. In the models explaining UK-outward tourism, not only do the costs of competing holidays play a more important role than for USA, but also the exchange rate. The 1974 oil crisis appears to have had a marked impact on international tourism demand by UK residents, featuring in five out of six models, and the currency restrictions appear to have affected those destinations with relatively high tourists' living costs. All income elasticities exceed unity with the exception of Greece, which has a surprisingly low coefficient value. The coefficients estimated for tourists living costs suggest that demand is price elastic for travel from the UK to Greece and Italy, but price inelastic for travel to Austria, France and West Germany. Air travel costs do not feature in the models, but the estimated surface travel cost elasticities show that demand is price elastic for West Germany and price inelastic for Greece, Italy and Spain.

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Major demographic changes are taking place in main tourism generating countries, and this is likely to affect both the volume and types of holidays undertaken. For example, an increasing proportion of the population will consist of retired people, couples with young children, and a declining proportion will consist of young singles. Also, changes in consumer preferences may have a profound impact towards activity holidays. Clearly, substantial changes in the amount of holiday entitlement will also influence the level of demand.

13.5.9 Forecasting in Tourism

It is widely recognized that one of the most important functions of the manager at all levels in an organization is planning, and planning creates a substantial need for forecasts. Reliable forecasts of tourism demand are essential for efficient planning by airlines, shipping, companies, railways, coach operators, hoteliers, tour operators, food and catering establishments, providers of entertainment facilities, manufacturers producing goods (primarily for sale to tourists), and other industries connected with the tourism market. Such forecasts are also of great interest to governments in origin and destination countries, and to national tourist organizations.

Both the need for forecasts and the importance of reliable forecasts have been stressed by several authors working in the tourism field. For example, Wandner and Van Erden point out that, 'since governments and private industry must plan for expected tourism demand and provide tourism investment goods and infrastructure, the availability of accurate estimates of international tourism demand has important economic consequences.'

Also, Archer states that: 'No manager can avoid the need for some form of forecasting: a manager must plan for the future in order to minimize the risk, failure or, more optimistically, to maximize the possibilities of success'. In order to plan, managers must use forecasts. Forecasts will always be made, whether by guesswork, teamwork or the use of complex models, and the accuracy of the forecasts will affect the quality of the management decision. In the tourism industry, in common with most other service sectors, the need to forecast accurately is especially acute because of the perishable nature of the product. Unfilled airline seats and unused hotel rooms cannot be stockpiled and demand must be anticipated and even manipulated.

Considerable benefits derive from an accurate forecasting system. If forecasts of tourism demand are too high, then firms in related industries will suffer. For example, there may be empty seats on airplanes and coaches, empty rooms in hotels, unoccupied apartments, unused hire cars, and so on. It is likely that, in general, capital investment will be excessive, the labour force will be too big and excess stocks will be held of goods normally sold directly to or used by tourists. If, on the other hand, forecasts of demand are too low, then firms will lose opportunities. For example, there may be insufficient hotel accommodation or too few flights to cater for all those wishing to visit a certain area at a given time. Even

if supply can be expanded to a limited extent, at short notice, this is likely to impose additional costs on firms as less efficient aircraft are used, and excessive overtime is worked. A broad range of techniques is available for demand forecasting in tourism and the main quantitative methods are now reviewed.

Univariate Time-Series

Univariate time-series methods are non-causal quantitative techniques, i.e., they assume that a variable may be forecast without reference to the factors that determine that variable past history on the forecast variable is simply extrapolated. Univariate time-series methods determine future values for a single variable through a process of identifying a relationship for past values of the variable. Thus, a great problem with forecasting by extrapolation is that it presupposes that the factors that were the main cause of growth in the past will continue in the future, which may not be the case. In an industry as volatile as international tourism, and one that is influenced by so many factors, trend extrapolation is a technique that should be used with extreme caution. It is rarely possible to justify time-series models on the basis of theory. The reasons for their use are essentially pragmatic and often generate acceptable forecasts at low cost. Furthermore, univariate time-series methods may be used where causal models are inappropriate on account of a lack of data or incomplete knowledge regarding the causal structure.

Although time-series extrapolation models are 'naive' in the sense that the impacts of the forces that determine the behaviour of the time-series are not taken into account, they often predict relatively well. Several of these methods are considered below:

Exponential smoothing

Exponential smoothing models provide a relatively simple set of forecasting methods that tend to perform well in practice. The single exponential smoothing model, in effect, attempts to reduce forecast error by correcting last period's forecast by a proportion of last period's error:

$$F_{t+1} = F_t + k(x_t - F_t)$$

where,

x_t is the value of a time-series in period t.

F_{t+1} is the single exponential smoothing forecast of x_{t+1}, (i.e., the, forecast for one period ahead), and

k is a constant, such that $0 < k < 1$.

Equation states that the forecast for period t + 1 is given by the forecast for period t plus a proportion (k) of the forecast error for period t. This equation may be rewritten to give:

$$F_{t+1} = kx_t + (1 - k) F_t$$

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Single Exponential Smoothing

Single exponential smoothing methods are only applicable to stationary series, i.e., to data without steps, trend or seasonality components, and with constant variance. For non stationary series, methods other exponential smoothing, can be used. Adaptive smoothing models can accommodate sudden upward or downward steps in a series; Brown's Double Exponential Smoothing Model can be used for time-series containing a trend, and the Holt-Winters' Double Exponential Smoothing Method is specifically designed for time-series exhibiting seasonality.

Trend Curve Analysis

Trend Curve Analysis is widely used in tourism forecasting situations. In general, regression analysis is used to find a curve of best fit through time-series data, which is then projected forward into the future. Trend curve analysis is relatively quick and easy to use and, using transformations, can be employed to produce forecasts from data showing a range of patterns, for example, straight line progressions, exponential growth, or patterns that display a gradual approach to a saturation level.

The observed values of a time-series are usually the result of several influences, and here we are concerned with isolating and measuring those parts of the time-series that are attributable to each of the components. Customarily, time-series variations are considered to be the result of three or four basic influences: secular trend, seasonal variations, irregular or random changes, and possibly cyclical fluctuations.

Classical Decomposition Approach

The classical decomposition approach assumes that the observation of the time-series at period t, x, can be represented as:

$$Xt = Tt \times St \times It$$

Where

T represents the trend value

S represents the seasonal component

I represents the irregular (unpredictable) component, and

t represents the time period

Sometimes an additional longer term cycle component is added to the classical decomposition model, but often this factor is ignored. This can be justified if there are insufficient data to detect it, which may well be the case with tourism series. Classical decomposition is best suited, where trend or seasonality are marked.

An alternative approach to decomposition is provided by the Census XII model originally devised for the US Bureau of Census. This extends the basic decomposition model of equation by allowing the trend term Tt' to be non-linear.

Box-Jenkins Univariate Method

The Box-Jenkins univariate forecasting method is a highly sophisticated technique and is more difficult to apply than the other univariate time-series methods. The models, usually, incorporate auto-regressive and moving average terms; the auto regressive component implies that the forecast variable depends on its own past values, and the moving average component implies that the forecast variable depends on previous values of the error term. These Auto Regressive Integrated Moving Average (ARIMA) models are very flexible; they can represent many types of stationary and non-stationary time, series. Furthermore, the models contain few parameters. The Box-Jenkins model-building approach can provide relatively accurate forecasts, but it involves complex mathematical and statistical algorithms, and subjective judgments on the part of the modeller. Experience is an essential prerequisite for improving the final models in the analysis of a time-series and thus, for successful application of the technique.

The econometric approach to forecasting international tourism demand involves the use of regression analysis to estimate the tourism demand function and then combining the estimated relationship with forecasts of the explanatory variables to generate tourism demand forecasts. A major advantage of econometric forecasting is that it explicitly takes into account the impact on demand of changes in the causal variables. Furthermore, econometric models may be used for active forecasting, that is, to assess the consequences of possible changes in the causal factors. An additional advantage is that, econometric forecasting provides several statistical measures of the accuracy and significance of the forecasting equations.

Econometric models, however, may be inappropriate in certain cases and are generally more expensive than non-causal models. Econometric forecasting also requires considerable user-understanding in order to develop the correct relationships. A major problem in attempting to generate accurate forecasts of tourism demand with econometric models is the difficulty of obtaining accurate forecasts of the variables that influence demand: income, inflation, exchange rates, and so on.

The Box-Jenkins multivariate approach to forecasting is considerably more complicated than the Box-Jenkins univariate method. It is a causal forecasting method in that other variables are allowed to influence the forecast variable. As with the Box-Jenkins univariate method, the model incorporates auto–regressive and moving average terms, and complex mathematical and statistical algorithms are involved. However, the existence of more than one time-series results in additional modelling problems. Again, experience is essential in order to apply the technique successfully.

Check Your Progress

7. What are the factors affecting the perception of customers regarding transport services?
8. Why is market segmentation done for tourism sector?
9. Give an example of psychographic approach.
10. What is conference tourism?
11. What are the disadvantages of seasonality in tourism?
12. What are the four principal strategies for managing seasonality?

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13.6 HOTEL SERVICES

A hotel is an establishment whose primary purpose is to provide accommodation to a bona fide traveller along with additional services such as food and beverage services, housekeeping services, laundry services and uniformed services.

13.6.1 Classification of Hotels

Hotels can be divided into various categories. The criteria for classification are based on:

(i) Size or number of rooms
(ii) Location
(iii) Type of clientele
(iv) Length of stay
(v) Levels of service
(vi) Management and affiliation
(vii) Ownership of guests
(viii) Unusuality of hotels

Now, let us look at these categories in detail.

(i) **Classification on the basis of size or number of rooms**

Hotels are classified on the basis of size or number of rooms into the following:

- ***Small hotel:*** It is a hotel with 100 rooms or less.
- ***Medium sized hotel:*** This is a hotel which has 100–300 rooms.
- ***Large hotels:*** These are hotels with more than 300 rooms.
- ***Very large hotels:*** These are hotels that have more than 1000 rooms.

(ii) **Classification on the basis of location**

Hotels have been classified on the basis of location into the following:

- ***Downtown hotels:*** They are also called commercial, city or business hotels. They are located in the heart of a city or town. Some examples of downtown hotels are the Blue Diamond in Pune and Oberoi Grand in Kolkata (Figure 5.1) that primarily cater to businessmen, tour groups, individual tourists and small conference groups.
- ***Commercial hotels:*** They provide a wide range of room types such as single rooms, double rooms, junior suites, suites and other essential facilities such as conference rooms and cocktail lounges. Most of the commercial hotels have restaurants, coffee shops, business centres with secretarial facilities, fax services along with the Internet and Xerox facilities. In addition, these hotels also offer room service, laundry-valet, uniformed services (like concierge) and transport facilities (such as airport pick-up and drop).
- ***Airport hotels:*** These hotels are located in the close vicinity to international and domestic airports of major cities and towns. Some well-known airport hotels in India are Airport Ashok in Kolkata and Airport Centaur in New Delhi, that cater primarily to the airline passengers (with cancelled flights) and airline crew members. Generally, the guests in these hotels stay for a very short duration (usually one or two days). They have well-furnished guestrooms with restaurants and coffee shops and offer various other facilities such as airport pick-up and drop through the hotel-owned cars and buses which are very important for passengers and crew members.
- ***Resorts:*** These are famous for their scenic beauty as these are located in exotic locations such as beaches, hill stations and forests which make them major tourist attractions. Examples of resorts are Fort Aguada Beach Resort in Goa and Vanya Villas in Ranthambore. They cater to the leisure travellers, families, holiday makers and vacationers who visit this special category of hotels to enjoy their vacations. The resorts have various recreational facilities such as tennis courts, golf course, skiing grounds, amusement parks for children in addition to the important facilities such as accommodation, food and beverage service, valet service and uniformed service.
- ***Motels:*** The term 'motel' originated from the word *mote hotel* which is an American concept. These hotels are located on the national highways and other important roads and mostly cater to the various passerbys on the highways. Motels are not very large and have fewer and inexpensive rooms providing basic facilities. However, they do have enough space for parking vehicles of guests and visitors
- ***Suburban hotels:*** These are located on the outskirts of cities and towns (Figure 5.5). They cater to the official and business groups wishing to hold conferences and seminars in a peaceful and calm environment, away

from the cities. These hotels also provide extensive accommodation and food and beverage facilities and have huge conference rooms and seminar halls. They also provide a wide range of conference and seminar equipment.

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(iii) Classification on the basis of type of clientele

Hotels are classified on the basis of clientele as follows:

- ***Downtown hotels:*** They cater to the business traveller, individual traveller and tourist groups.
- ***Airport hotels:*** These hotels cater primarily to passengers with cancelled and delayed flights and to airline crew members.
- ***Resorts:*** They cater to tourist groups, families and other vacationers.
- **Motels:** They cater to passers-by, passengers and other transit guests with vehicles.
- ***Conference centres:*** They especially cater to conference, meeting and seminar attendees and provide overnight accommodation to these guests; example, Hotel Ashoka in New Delhi. These hotels provide various kinds of equipment required for conferences and seminars such as audio-visual equipment (overhead and LCD projectors), various seating arrangements, display screens, flipcharts and other important technical assistance required during meetings and seminars.
- ***Convention hotels:*** They are very large hotels (with 1000 to 3000 rooms) especially constructed to cater to the needs of housing the convention attendees. Convention hotels are very common in the US and mostly attract the convention market of regional, national and international associations. These hotels offer a large number of business services to guests (secretarial assistance, fax machines, computers) along with other food and beverage service facilities, housekeeping and transport services.
- ***Casino hotels:*** These are a special class of hotels which cater to the needs of guests who are interested in gambling. An example of a casino hotel is Gambler's Paradise in Arizona, USA. These hotels are very common in the US and offer a vast range of gambling facilities with the casinos of the hotels operating all through the day and night, throughout the year and these are a major source of revenue for these hotels. These hotels attract guests through theme parties and extravagant shows and thus, earn a large amount of money. Apart from gambling facilities, these hotels also provide accommodation with exclusive guestrooms and also provide a large range of food and beverage service facilities.
- ***Suite hotels:*** They cater to lawyers and the elite class of businessmen, film personalities, politicians and various executives. Since these hotels

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mostly have suite rooms which have a sitting room and bedroom, the privacy of the guest is maintained.

- ***Boutique hotels:*** These hotels have been tagged with the term 'boutique' due to their intimate size, idyllic settings, highly personalized service and outstanding attributes.

(iv) Classification on the basis of length of stay

Duration of stay forms another basis of classification for hotels as the following suggest:

- ***Extended stay hotels:*** The travellers and tourists stay for a longer duration, that is, more than one month. Such hotels are very similar to the suite hotels but the guestrooms of these hotels offer kitchen facilities. These hotels generally provide elaborate world-class services to the guests and hence are targeted towards budget minded tourists who require reduced hotel service.
- ***Semi-extended stay hotels:*** Also called residential hotels, guests stay here for three to five days and are widely used by vacationers as well as business travellers. They combine the features of extended stay hotels and transient hotels.
- ***Brief stay hotels:*** They are also known assemi-residential hotels. Guests go to these hotels for a very short stay which range from a few hours to one night. These hotels generally give discounts called 'leeway' to the guests staying for a few hours and a reduced or discounted rate is charged from the guests.

(v) **Classification on the basis of levels of service**

Hotels can be classified on the basis of the services provided by them into the following:

- ***World-class service hotels:*** These hotels are targeted towards the elite classes, politically important people and other celebrities. They offer excellent accommodation, food and beverage and uniformed service to the guests such as guestrooms with world-class decor and finish, private lounges and dining rooms along with upscale restaurants, concierge service, valet parking service, dry cleaning and laundry valet service. The rooms of these hotels are built in a modern way and are equipped with all supplies such as personalized stationery, beautiful set of bathroom supplies including shaving sets, morning kits, herbal shampoos, soaps, large sized bath towels, shower caps, bath robes and a large number of other amenities. One of the special features of these hotels is the 'club floor' or 'tower' which are separate floors or buildings, constructed for very important guests to provide them with comfortable accommodation and security. These floors or buildings have restricted entry for the staff

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as well as visitors to ensure complete privacy to the guests. The public areas of these hotels are well decorated with exquisite floorings, furniture and furnishings making these hotels a piece of art. There are round-the-clock coffee shops, specialty restaurants, banquet halls and conference rooms in these hotels. The world-class service hotels maintain a high ratio of staff members to guests, which is generally one or more than that. This high ratio of staff members helps them to offer highly personalized service to the guests.

- ***Middle-class service hotels:*** These hotels have the largest target market as they cater to the largest segment of the tourist population, which consists of businessmen, families and individual travellers. Although middle-class service hotels have a high staff-to-guest ratio, they do not offer extremely personalized service to the guests as it becomes an expensive affair for the guests. The guestrooms of these hotels are equipped with the basic amenities and supplies required for a comfortable stay. The stays at middle-class service hotels are comparatively less expensive than the world-class service hotels.
- ***Economy or limited service hotels:*** These hotels are increasing in number day-by-day, due to the requirements of the travellers for cheaper accommodation as compared to the world-class and middle-class service hotels. These hotels mainly cater to budget-minded travellers such as families with children, retired persons, tour groups as well as some business people who require clean and inexpensive guestrooms with least amenities, required for a modest stay. The economy class service hotels have less staff-to-guest ratio and generally do not provide elaborate food and beverage service and other types of service offered in the world-class and middle-class service hotels. Generally, these hotels offer limited food and beverage service, some basic amenities in the guestrooms such as linen and soaps and sometimes, they may have small meeting rooms for conferences.

(vi) Classification on the basis of management and affiliation

The following are the various types of hotels on the basis of affiliation:

- ***Chain hotels:*** These are hotels which are affiliated to others and are owned or affiliated with other property. Examples of chain hotels are the Taj group of hotels, the Oberoi group of hotels, etc. They enjoy large economies of scale, as all the properties of the chain enjoy the benefit of advertisement and promotion, as it is the brand which is being promoted rather than the individual properties. All of them have management information systems, reservation systems, national purchasing contracts and common architectural designs.
- ***Independent hotels:*** These are hotels which do not have any recognizable ownership and also do not have any management affiliation

similar to the chain properties similar to Bristol in Gurgaon. They do not have to obey the rules and regulations which the properties of a chain have to follow to maintain their affiliation.

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The following are the various types of hotels on the basis of management:

- ***Management contracts*:** The concept of management contracts originated in the US in 1970 and was immensely successful thereafter. A management contract is a contract signed between an individual property owner (who might not have fair knowledge about the management of hotels) and a hotel management company to look after the day-to-day administration and management of the hotel. In return, the hotel management company would get a commission called the management fee, which is generally 1 per cent–8 per cent of the total revenue generated by the hotel. Sometimes, they also get an additional incentive fee which is a percentage of the net profit generated by the hotel property. Although a management contract gives total control of the hotel property to the hotel management company, the legal and financial responsibilities lie ultimately with the owner. A chain acting as the management company for a particular property has total control over the standards and quality of each property and this benefits both the chain and the owner.
- ***Franchising:*** The concept of franchising was developed in 1960 in the US. In the franchising process, an individual builds a hotel property and enters into an agreement with a hotel company rather than operating as an individual property. In this case the individual entity is called 'franchisee'. Thus, the hotel company called 'franchisor' agrees to grant the right to the franchisee to conduct the business according to the pattern established by the company. The individual owner gains a lot from the franchising agreement as the new property enjoys the name and reputation of the franchisor, receives assistance from the company regarding the technical know-how to run the property and above all, also enjoys a central reservation system and sales and marketing assistance to run the property.

  The franchisee in return pays a fee to the franchisor which includes an initial franchising fee which is a lump sum amount and then royalty fee, reservation fee and marketing fee which are a percentage of the total room sales.

  Thus, the process of franchising is an extremely successful business strategy in the world of hospitality.
- ***Referral groups*:** The concept of referral groups was developed in the US in 1960s by independent hotel operators in order to compete with the chain hotels.

  In referral groups, independent hotels join together to form an association for a common purpose. Thus, an independent hotel gains a broader

level of exposure and a number of advantages by joining the referral group.

(vii) **Classification on the basis of ownership of guests**

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The following are the types of hotels on the basis of ownership:

- ***Condominium hotels:*** A condominium development involves a joint ownership of a complex. Each owner purchases and has full benefit of a unit such as a guest room, suite, apartment or a villa and shares the cost, common to the whole complex. Each owner can occupy or sell his unit independently but is obliged under the terms of contract to contribute towards the pool of common facilities and services. The entire concept of the condominium is costlier than timesharing and hence this concept could attract only few guests and thus resorts using this concept started incurring huge losses.
- ***Timeshare hotels:*** The concept of timeshare hotels was introduced in Europe in the year 1970, when the condominium hotels started incurring huge losses and were on the decline. According to the concept of timesharing, individual guests will purchase the ownership of the particular unit of a resort for a definite period of the year and will occupy the unit during that period. For example, Mr Kumar may purchase a particular cottage of a resort for the first three weeks of January during which he may stay at the cottage. Other individuals will purchase the ownership of the cottage for the remaining eighteen weeks of the year. Thus, in timeshare hotels, there are multiple owners for a single cottage or unit of a resort or a hotel. The process of timesharing is far cheaper than the condominium concept and hence was more popular in the hospitality industry. One of the unique advantages of the timesharing concept is that the owners of the units can easily trade their ownership time with other owners in other locations. In India, a few of the holiday resorts have started the concept of timesharing and are earning huge profits; example, Sinclair's resort in Darjeeling.

(viii) Unusual hotels

The unusual features of lodging and the environment of the hotel make these hotels remarkable tourist destinations

13.6.2 Marketing a Hotel

The hospitality industry thrives even during the worst economic meltdowns. Out of the entire range of hospitality services, hotels conduct the most thriving business. High quality services, courteous and amiable staff along with excellent facilities are the facets for a successful and profit churning hotel. There are various other factors which contribute to a hotel's success, such as:

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(i) Marketing

A hotel requires good marketing in order to attract customers over their competitors. They need to retain their current customers in such a manner that they become regulars to the hotel and spread positive word-of-mouth regarding it to known people. The hotel staff should form strong relations with their current customers and maintain relations with past customers, in order to retain their potential clientele.

- Simple actions like sending birthday cards and complimentary gifts and coupons on festivals and anniversaries help in making a big difference with key prospects.
- Provide ample amount of flyers at the local centre as well as the state visitor centres to reach maximum amount of audiences.
- Provide your hotel guests with a well-structured questionnaire or feedback-form encompassing service quality ratings for all departments of the hotel to understand the customer requirements and the changes or improvements that need to be brought into effect.
- Make and distribute colourful brochures of your hotel to prospective clients. Moreover, have an attractive and informative website to promote your hotel. Enlist your hotel into a group advertising on the web like besthoteldirectory.com so that visitors can get your hotel's information and reference from a reliable website and would consider it for their stay.
- It is important to have your hotel's visiting cards on your person at all times since they might help build corporate clientele at various conferences or functions. They might even be useful to any prospective client you might meet during meetings or at any social gathering.
- Make sure that the website for your hotel is easy to navigate and is colourful with many pictures of all your facilities and entertainment opportunities for guests. There should be separate sections for contact information, direction and accessibility, hotel information and online booking facilities on the home page of the website.
- Lastly, always send thank-you notes to all the travel agents you are in business with so that they are more enthused to promote your hotel and packages to their customers. Even little things go a far way in flattering people in the hotel industry.

(ii) Hotel's Service

Another important point would be the service provided by the hotel to its guests. It is favourable for the hotel to impress their guests by providing excellent services and charge the right price according to the hotel's standard and in symphony with the prices of other similar hotels.

(iii) Hotel's Position

The location of the hotel is a very significant factor since people prefer to stay at hotels which are accessible and close to all the markets, malls and tourist spots, making it convenient for them to commute there.

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13.6.3 Guest Satisfaction Factors

Ensuring and maintaining guest satisfaction is one of the biggest contemporary challenges of management in hotel industries. Guest satisfaction is characteristically defined as a post-consumption evaluative judgement concerning a specific product or service. It is the result of an evaluative process that contrasts pre-purchase expectations with perceptions of performance during and after the consumption experience. In the quest for competitive differentiation and customer retention, guest satisfaction has increasingly been identified as key factor. According to Lam and Zhang, customer (guest) demand for quality products and service has of late become increasingly evident to professionals associated with the tourism and hotel industry. Of all the demands of guests, service quality has been increasingly recognized as a decisive factor in the success of any business.

The expectancy disconfirmation theory— satisfaction level is a result of the difference between expected and perceived performance — is the most widely accepted conceptualization of the customer satisfaction concept. Satisfaction (also referred to as positive disconfirmation) takes place when product or service is better than expected. Dissatisfaction (also referred to as negative disconfirmation), on the other hand, refers to performance worse than expected results. Studies have shown that guest satisfaction may have direct and indirect impact on business results.

Five factors for guest satisfaction in hospitality sector

For restaurants, hotels, pubs and other hospitality businesses, customer or guest satisfaction depends on various factors. Ensuring customer satisfaction is an effective way of achieving client loyalty. Service quality is as important as product quality. Service delivery can transform an average hotel into a great one. The following are the five top drivers of guest satisfaction in the hospitality industry.

- ***Cleanliness:*** According to surveys, for a large proportion of hotel guests, cleanliness is the top priority when choosing accommodation. Cleanliness was valued over pricing, location, and security in the survey. Thus, to ensure a great customer experience, restaurant, pub, and bar managers should implement a stringent cleaning schedule.
- ***Variety:*** Variety is a crucial factor in furthering guest satisfaction and recurring business. A simple way to get an idea of what you should provide in terms of choice of foods is through customer surveys. Such surveys help in deciding what to add and what to remove from your service experience.
- ***Accuracy and timeliness:*** Accuracy and timeliness in service delivery must be a primary objective of any hospitality business. If the guest time

and again fails to get their product on time or they frequently are not served the product they ordered, the credibility of the hotel is downgraded.

- ***Experience:*** As in any service industry, focusing on the process of service delivery from purchase to departure in a hotel results in a better understanding of how the hotel can improve their overall experience.
- ***Managing errors or oversights:*** There are always possibilities of mistakes and oversights due to human error. However, the management of the hotel needs to implement a policy for quickly and effectively dealing with errors and oversights so that situation does not escalate and customers get plenty of support.

13.7 CONSULTANCY SERVICES

In recent years, the consulting industry has changed significantly. One of the major reasons that brought about a change is the mergers and acquisitions that took place in the few years. Another important reason is that many of the IT companies thrust themselves with their own subsidiaries into the market. In most of the cases, clients expect new payment terms. As a result, the consultancy industry is gaining importance.

The industry uses a variety of methods and techniques to market advisory services. One needs to understand the fact that apart from gaining new clients, it is important to intensify the existing client relationships as well. There are differences between its various marketing techniques; however, they are not easily identifiable except for some favoured marketing techniques. Most of the firms prefer more subtly indirect techniques to the direct techniques. The direct marketing techniques are considered less important. Smaller consultancies and bigger ones perceive the opportunities and importance of certain industry sectors and consulting services differently.

13.7.1 Consultancy Services Marketing Mix

Traditionally, attracting new customers is regarded as the key goal of a consulting firm. However, it is more important to emphasize on retaining its existing customers. A well-managed firm will always try to retain and grow its existing customers. The fact is that it will cost five to six times more to attract a new client than to maintain an existing client. The services marketing mix is incorporated in the consultancy services to develop marketing strategies as examined below:

(i) Service

A consulting firm should understand the importance of its human resources. The productive capacity of the firm is, in fact, in its human resources. The firm’s productivity as well as upholding the firm’s creative and productive employees’ interest is important for the firm. Therefore, the consultancy needs to provide a product mix for its clients (external customers) and employees (internal customers),

as well. Besides projects like 'Bread & Butter', the organization should conduct challenging 'Pacesetter' projects that will help retaining its best employees. A specialist can focus on a certain service for a particular industry; however, a marketing generalist has to focus on all his services for all industries. It is not easy to understand the consulting services and their worth as they are intangible. However, companies can use a number of innovative methods and measures to understand the tangible aspects.

(ii) Price

It is a common knowledge that the price is dependent on the case-size. A small case requires only a few consultants and less time. Whereas, a global company undertaking a number of countries involves more consultants. The involved consultants are paid differently as well. It is obvious that a director is paid more than a junior consultant and therefore creates more costs for the client. However, the client may insist to be advised by executive consultants. Consultancies are usually well aware about the price structure within the market. They are well informed about their competitors' pricing strategy as well. Therefore, it is unlikely to have much difference between the fees charged by two different firms offering the same service. If a consultancy is in a unique market-position, it may enjoy the privilege of charging a fee higher than rest of the other firms.

Nowadays it is also possible that consultancies take-over clients' businesses. For example, Deutsche Bank outsourced its data processing service centre in Heidelberg (Germany). Now, it is managed by the Computer Science Corporation (CSC).

(iii) Promotion

The services provided by a consultancy firm can sometimes be difficult to understand and their worth is unpredictable. Therefore, advertising and promoting their services is considered as a daunting task. In the case of consultancy services, 'word of mouth' has proved to be more powerful than advertising. Service firms should try to encourage more and more customers to tell their friends and business partners about the service provided by the firm. Networking and referrals are highly useful in the consulting industry.

(iv) Distribution

Consultancy services are distributed directly as the consultant and the client need to meet each other. In fact, before a case is stipulated, several meetings take place between the consultant and the client. Most of the consultancies opt for a multi-service strategy. The firm can grow and expand its business by capitalizing on its reputation. The company adds to the operational complexity of the business with its growing range of new services. For distribution of its services a wide network is quite important. With good networking, the firm's reputation and its services can be spread easily and quickly.

13.7.2 Direct Ways of Promotion for Consulting Services

Direct approaches or direct ways are primarily used by smaller consultancies. Most of the consultants prefer being approached by prospective clients. However, it is unlikely that smaller consultants or newcomers get approached by a large number of clients. Therefore, they have to find clients who seek their services.

(a) Systematic Cold Contacts / Canvassing

There are a number of ways of canvassing a client directly. When a consultancy firm gets information that within one business sector consulting services are urgently required, it may start conducting systematic cold contacts. In this case, the consultant tries to contact the potential client directly and then offers the client its services. Some of the reasons for approaching consultancy firms suddenly are expected (hostile) takeovers, unexpected economic downturns, new products, sales problems, new legislation rules, etc.

Consultants should understand that the potential client could be in a troublesome situation. In such cases, possible sources of information are 'insiders', such as alumni who are now in press or customers of the client. Once the consultancy has gathered enough information, it can send a letter to the potential client. The letter can include some cases giving details about references concerning similar problems that were solved earlier by the firm. Some of the types of the 'systematic cold contacts' are cold telephone calls, cold visits and direct mail.

(b) Cold Visits & Telephone Calls

Cold visits are not considered a great option to approach a potential client as he/she might not be comfortable sharing his/her confidential matters with a stranger. However, the consultant can use cold telephone calls at the first step. There is no guarantee that the consultant will be able to convince the potential client to seek the firm's services. But there is still a chance that the client might want to meet the consultant.

(c) Direct Mail

This can be done by sending a direct mail to the clients. One disadvantage of direct mail is that usually it gets only a few seconds of attention before it gets deleted. Therefore, it is important that message is clear and targeted to the specific needs of the customers. A well-created email often tends to express strong, sometimes forthright opinions, which strike a chord with high-level target contacts. It is possible to give the direct mail a meaningful opinion only when you have a sound knowledge about that particular industry. Therefore, the industry has to be researched in-depth before you send a direct mail to the industry in order to give the direct mail a meaningful opinion.

(d) Unsystematic Cold Contacts or Cold Calls

Another type of cold contact is 'unsystematic'. In this case, the mails or calls do not focus on a specific potential client, but on a number of potential clients. For example, a mail is sent to a whole region or business sector. However, the offer

must match actual existing problems. Three categories of unsystematic cold contacts are as follows:

(e) Unspecific Cold Calls

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Unspecific cold calls are usually like a self-presentation. It needs to focus on the strengths of the consultancy. Establishing an image also helps as it will help make the firm well known. However, rate of response is low.

(f) Cold Calls linked to a competitive advantage

This form of cold contacts either stress a competitive advantage a consultant has, or give a precise description of a former case and point out the consultant's competence.

(g) Cold Calls with a business solution

In this case, the consultant identifies a specific problem within the business sector and offers a tailor-made solution.

(h) Follow-up

When the consultant gets no response from the potential client, a follow-up can be undertaken. The consultant can send further useful information to the potential client, who is apparently uninterested. This may succeed in convincing the potential client.

13.7.3 Indirect Ways of Promotion for Consulting Services

Many of the popular consultancies opt for the indirect marketing approaches. Some of the major consultancies which use such type of marketing approach are Boston Consulting Group, McKinsey & Company, Accenture, Bain & Company and Arthur D. Little. The indirect marketing efforts are usually more subtle but they are characterized by a certain proximity to customers.

1. **Word of Mouth:** Word of mouth marketing is considered as one of the most efficient and popular way for a professional firm to get in contact with new clients. Decisions to choose a particular consultancy's services are usually influenced by recommendations gave by someone. Sometimes, influence of others' opinion proves to be more powerful than someone's own perception.
2. **Networking*:*** Networking plays a great role in making a consultant successful. Always keep in mind that access to knowledge is a key aspect of being a consultant. The network of contacts is an invaluable source. For example, the first consulting firm in the United States, Arthur D. Little, used 'networking' to make it one of the most popular consulting firms in the world. It remained the number one consulting firm till 1979.
3. **Referrals:** While a consultant is working on one case, he/she can use the opportunity to talk to the client and ask him about his/her business partners or others who could be interested in the constancy firm's services. He/she can be encouraged to talk to the fellow managers about the case. That way,

the services of the firm will be promoted. If a consultant could make his/her client satisfied, giving the client a satisfactory result, then the consultant has the right to use the case and the client's name in promoting the services of the firm.

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4. **Customer Relationship Marketing: Relationship marketing** is an important form of marketing which focuses on customer retention and satisfaction. It is important to get new clients. However, it is also essential to retain former clients.

13.7.4 Events, Sponsorships, Seminars and Workshops

Sometimes constancy companies organize or sponsors events, seminars and workshops in order to promote their services.

Sponsorships

When a consultancy firm sponsors an event, it is obvious that the name of the firm stands out. Sponsoring big events will help in promoting the services of the firm. It will also help in attracting potential clients. For example, Booz Allen Hamilton sponsors an annual golf tournament known as the Booz Allen Classic at Avenel.

Seminars

Consultancy firms can organize seminars as well. They can either organize such events themselves or in collaboration with partners such as scientific institution, chambers of commerce etc. In most of the cases, speakers are consultants of the hosting firm or sometimes externals who are closely linked to the firm.

Workshops

Workshops are considered as a useful option especially for discussions about current business themes. In workshops, the participants are actively involved and give the consultants relevant information and details about their own demands.

Dinner seminars

Dinner seminars or fireplace conversations are a common and effective means promote a firm's services. It helps in intensifying the existing client's relations. In dinner seminars, client partners are invited for a dinner or a discussion and discuss about important business themes. For example, James McKinsey's discussions with Marvin Bower in such a seminar helped in upgrading the size and quality of McKinsey's clients.

Memberships/Directories

It is quite useful when a consultant becomes a member in a consultancies' association. If possible, try to get into potential clients' associations. It will be even better if the consultant is listed in directories. In addition to the consultant's name and address, a directory also gives information about the consultant's areas of expertise and a description provided by the consultant concerned. Examples for consultant directories are IMC (Institute of Management Consultants) in the UK and FEACO (Federation Europeene des Associations de Conseils en Organisation).

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Presentations

One of the effective means of promoting a firm is taking parts in presentations. This will give a consultant an opportunity to speak at a target client's convention. It might not directly help in convincing the potential clients to seek the firm's services but it will help in making more contacts.

Self-Analysis

Self-Analysis is a way of analysing and evaluating a company's strengths and weaknesses. Some companies can develop checklists. After this, the completed forms are sent back to the consultancy for further analysis. The consultancies gather relevant information about the potential clients. Then they may focus their marketing efforts.

Media

Lambert says that 'there is no promotion as effective or satisfactory as free ink'. It should be one of the key objectives of the consultant being presented as an expert in his/her service field in the media. When a consultant is lauded in media, there is possibility that he/she gets an opportunity to appear in press conferences or such events with a key client, which can prove to be very useful for the consultant and the firm as well. A perfect example could be Booz Allen Hamilton. Whenever the consultancy firm or anything about its services is mentioned in the media, the firm records the release. This helps Booz Allen Hamilton measure the effectiveness to spread messages and other important findings. Another useful method to attract potential client's attention is the company's website. Here, clients can extract required information about the firm. Booklets can also be ordered by the potential clients.

Brochures/Booklets

Contrary to the cold contacts, brochures provide general information about the firm rather than focusing on a specific customer problem. When a company orders a brochure or booklet, some of the important information about the company is already given to the consultancy firm, which can prove to be useful for the firm.

13.7.5 Corporate Identity and Reputation

A consultancy firm itself can determine the corporate identity; however, the reputation of the firm is highly influenced by the perception of the clients.

Corporate Identity

Many of the firms use different ways to emphasize the firm's corporate identity. Some of the common methods are engagement in social clubs, offices in exclusive locations and hiring staff at the leading business schools. Another important means of creating corporate identity is to focus on uniformity. For example: Marvin Bower, McKinsey & Company CEO, determined in his 'Guiding Principles' every important step of the advisory process like the presentation style, the dress code, etc.

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Reputation

In the consulting business, reputation is considered as an important success factor. According to Wilson, 'reputation is the most valuable asset a consultant has, so valuable that it has to be nurtured and protected as much as possible'. He stated so because it is difficult to earn good reputation, but can be lost easily by one bad project. The impact of reputation can be seen in the following three examples. When the company Accenture split from its parental firm Andersen Worldwide, it tried it best to transfer some of Andersen's reputation to the new brand. It helped Accenture in establishing itself successfully. For Marvin Bower, reputation was considered equivalent to revenue growth. He felt that when the status and reputation of a firm grow, the revenues will naturally grow. Another interesting example is that of Arthur D. Little (ADL). ADL managed to gain reputation by developing and innovating scientific processes such as pioneering in pollution control, converting salt water into fresh water, environmental protection, etc.

Advertising

Advertising is usually considered a viable option only for bigger consultancy firms. But some consultants still try to use advertising to promote their services. Some of the drawbacks of advertising are that it may cost a company a huge amount of money and moreover, its long-term effect is debatable. Many experts criticize, that advertising campaigns are a sign of no imagination. However, Andersen Consulting changed the general concept with its 1990 advertising campaigns. The campaign's message was made very simple 6 'metamorphosis in a world of change'.

13.8 HOSPITAL SERVICES

The marketing of hospital services starts from the structure of the hospital. The architect of the building must keep in mind the nature and business interest of the hospital and design it accordingly. The hospital design must take into account significant features like:

1. Ambulance point
2. Reception area
3. Car park area
4. Emergency management
5. Wards accounting to sizes
6. Consulting rooms
7. Isolation wards
8. Security posts
9. Medical records unit

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10. Rest rooms for nurses and doctors
11. Operation theatre and labour rooms
12. Laboratory and other diagnostics centre
13. Conveniences for male and female patients or visitors
14. Location of incinerator
15. Administration and accounts offices
16. Provision for waste points
17. Provision for other services

The design of the hospital should be simple and patient friendly in order to avoid patients being confused in case of emergencies. The hospital designers must observe the faults in other hospital structures to avoid them in the new hospital building and create a structure than can be marketed successfully. Marketing is done right from the beginning of the business venture.

13.8.1 Recruitment of Hospital Staff

The main concept which one has to keep in mind when hiring hospital staff is that they will be the marketers of the hospital facility to the guests and patients. Recruiting, starting from the gate-keeper to the Administrator or Director, must be done with a lot of precision and care in order to hire the right person for the right department. This is because the customer relationship will be the responsibility of the staff as they are the ones dealing with patients and visitors on a daily basis. They should be very dedicated to their jobs since hospitals deal with patients who are ill and the duty of the staff is to be soft and caring for the patients to feel comfortable and heal quickly. In hospitals, the hiring process should not be biased in terms of favours, convenience, friendship and physical appearance.

The staff must be pleasant, skilled and efficient in what their duties entail. The administration can even take the help of an outside consultancy service for recruitment if they do not have in-house facilities for manpower recruitment. The hospital team should receive a rigorous amount of training as their job is one where they have to be very vigilant at all times and need to have good customer relationship management skills. Regular staff appraisals help the management identify and distinguish between the assets or liabilities in their staff, enabling them to take necessary action. Constant slackers in the staff must be replaced by more efficient and enthusiastic people to ensure productivity and a good name in the market for the hospital and its facilities.

Each organization compensates employees according to their performance, loyalty and dedication toward their work. If a hospital ventures to pay a slightly higher salary to its employees than other hospitals, it would become more profitable for them in the long run since the staff would be more dedicated and would consider

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it their duty to justify the wages paid to them. There would be less quitting, more quality healthcare and better customer relationship. People would prefer that hospital over others and would gladly pay any amount for the high quality and satisfactory services provided by them. In any service industry, the customer is considered to be at the highest pedestal, and service-providers should strive to please them and provide them with the best service possible for a long-lasting relationship.

13.8.2 Function of Hospital Marketing Department

The marketing department of any hospital is an important ancillary, responsible for bringing funds to enhance the facilities and services of the hospital. There are various functions performed by the marketing department of a hospital, such as:

1. Identify the customers of the hospital. There are four categories of customers:
   (a) Private patients
   (b) Health insurance patients
   (c) Complimentary patients
   (d) Retainerships
2. Understand the terms of the relationship with each retainer and HMO to ensure compliance from all.
3. Identify the services provided by the hospital including the specialties and sub-specialties.
4. Segment patient base from the information in their medical records.
5. Send bills on time.
6. Package hospital products and market the same to the public.
7. Form liaisons with all retained organizations.
8. Deal pleasantly and professionally in case of any queries.
9. Create a good public image of the hospital.
10. Obtain authorization from retainers and HMOs whenever necessary.
11. Organize customer forums regularly by bringing customers to meet specialist doctors and learn more about the hospital and various services available with them.
12. Complete other assignments given by the management to the marketing department.
13. Get regular feedbacks from patients.
14. Attend to the disputes regarding billing or any other complaints by patients.
15. Increase attendance from retainers
16. Collect payment cheques.

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Check Your Progress

13. List the five factors for guest satisfaction in hospitality sector
14. List any two functions performed by the marketing department of a hospital.

13.9 MARKET SEGMENTATION

Market segmentation is the process of dividing the potential market into distinct sub-markets of buyers with common needs and characteristics. The companies can offer different products and services to the buyers as per their needs in the respective market segments. In 1960s members of the timeshare industry offered quite similar lodging products. Now, time share companies are segmenting their offerings. Marriot has three: Ritz-Carlton clubs, Marriot vocations clubs and horizons. There are over 5,500 time share resorts worldwide. The industry has worldwide sales of almost $10 billion.

Hotel market segmentation

Market segmentation is the key to revenue management in the hotel industry. It allows a marketer to target and market to various types of consumer groups with different behaviours in order to match their needs and budget level. In short, hotel market segmentation helps to recognize the purpose of the stay in hotel: business or pleasure. A clear difference must also be attained between individual and group businesses.

Hotel market segmentation helps identify the following trends of a hotel's business:

- Length of stay
- Total revenue per room/client
- Lean times
- Cancellation (in percentage terms)
- 'No-show' ratio

For example, the Tata Group's Indian Hotels Company Ltd has launched India's first 'no-attitude' hotel with tariff less than Rs 1,000. This hotel is located in Bangalore. The company plans to open more such hotels across the world, with some focus on India. This move is important because the group is tapping into the economy/budget hotel category, in addition to the premium hotel category. For this reason, there is a greater need to look into market segmentation techniques and trends to stand up global challenges.

13.9.1 Benefits of Market Segmentation

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Market segmentation process has many benefits. Some of them are as follows:

- **Understanding the needs of buyers:** It becomes easier for marketers to understand the needs and wants of the buyers and homogeneous nature of needs.
- **To adopt better positioning strategies:** As marketer is able to know the homogeneous needs of the specific market due to market segmentation, it becomes easy for him or her to position the products and services as per the market needs.
- **Proper allocation of marketing budget:** As the need of market is known to the marketer, so he or she can allocate the marketing budget as per the need of the different markets. According to the potential of the market, marketing budget also varies from one market to another market.
- **Helps in preparing a better competitive strategy:** Competitors may vary from one market segmentation to other. If they can be understood effectively then their strategies can be evaluated. So it becomes easy for the marketer to develop competitive marketing strategies.
- **Provides guidelines in preparing media plan of the company:** It is very difficult in a country that one media is effective to all submarkets. It is important for the marketer to know the media penetration in every submarket. Thus, suitable media can be selected as per the market requirement. Use of print media or electronic media and its penetration in respective market can vary.
- **Different offerings in different segments enhances the sales:** Owing to different needs of customers in different segments, companies generally offer different products or services as per the requirement of the market segment. Thus, segmentation helps the company in increasing its sales in the market.
- **Customer gets more customized product:** Marketers develop different products and services specific to the needs of market segments. Specific product or service may be suitable to specific segments and not to all. When a company takes for market segmentation, they consider the local needs of the submarket and develop the customized products.
- **Helps company to identify niche market:** It may be possible that a product or service cannot be sold to all the customers. Thus, with the help of market segmentation, a marketer can easily find the market for its products and services to cater to the need of a specific segment.
- **Provides opportunities to expand market:** It might be possible that a marketer is operating in a market with a particular kind of product, but

when he does market segmentation he gets to know more about the needs of the customers. He develops more products and services to satisfy the customer's need and to increase the business volume.

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- **Encourages innovations:** A restaurant owner develops the expertise in north Indian food as his target segment is of north Indian customers. Therefore, restaurant's owner want to delight its customer by making innovations so that he can keep the interest of his customers in his restaurant.

13.9.2 Requisites of Effective Segmentation

Though there can be several ways to segment the market, all are not equally effective. The effectiveness of market segmentation can be characterized as follows:

- **Measurable and obtainable:** The size, profile and other relevant characteristics of the segment must be measurable and obtainable in terms of data. If the information is not obtainable, no segmentation can be carried out. Some segmentation variables can be difficult to measure. For example, census of India provides the data on migrations and education level, but does not specify how many of the migrated employees are educated and if educated how many of them have white collar jobs.
- **Substantial:** A segment should be large enough to be profitable. If the market segment is not large enough, it may be possible that the cost of the product or services is too high. A segment should include the largest possible number of customers to ensure the profit earning of the company. For example, large metropolitan areas can support many different ethnic restaurants, but in a smaller town all ethnic restaurants cannot survive.
- **Accessible:** The segment should be accessible through existing network of people at affordable costs. For example, majority of rural population is still not able to access the restaurants due to high cost of food and other services.
- **Differentiable:** All the segments are different from each other and require different approaches and programs. Therefore, a hotelier needs to focus on offering different things to different segments.
- **Actionable:** The segments which a company wishes to pursue must be actionable in the sense that there should be sufficient finance, personnel and capabilities to take them all. A small hotel identifies four market segments, but its staff and budget is too small to develop separate marketing programs for each market segment.

13.9.3 process of Market Segmentation

The process of market segmentation includes the following steps:

- **Identifying existing and future wants in the current market:** It is important for marketers to examine the changing needs of the customer. After examining the changing needs of the customer, the company identifies

whether the customer is satisfied with the existing product or not? If they are not satisfied with current product or service, what are the features they are looking at in a product or service? It also helps the company to test the viability and feasibility of its innovations commercially. A new restaurant starts its business and finds sufficient customers for its business. Gradually, its customers start decreasing. When the owner searches for the reasons, he finds that customers are looking for better physical evidences, procedures and people. All the three factors are not related to the main product, i.e., food but influencing the choice of food. Now, people require swimming pool, tennis court, different cuisines, disco clubs, etc as common attributes to a good hotel. Therefore, it is important for marketers to understand the existing and future wants in the current market so that they can develop all innovations into their products.

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- **Examine the attributes that distinguish among segments:** In this process marketers should segregate different types of wants into homogeneous categories. It may be on the basis of product features, life style or behaviour. Wants and behaviour of the customers of 3 stars, 4 stars, 5 stars and 5 stars deluxe hotels are different and help the company to understand the needs of customers in a better way.
- **Evaluate the proposed segment:** Attractiveness on the basis of measurability, accessibility and size segments selected in second step should be evaluated against the requisites, i.e., measurability, accessibility, sustainability. Company's further strategies will depend on the outcome of this process.

13.9.4 Bases for Segmenting Buyer Markets

There is no single way to segment a market. Thus, a marketer has to try different segmentation variables. Here you are analysing geographic, demographic, psychographic and behaviouristic variables as bases of segmentation in segmenting buyer market.

1. **Geographical segmentation:** Geographic segmentation means dividing the market into different geographical units such as nations, states, regions, cities, etc. The company can operate in one or a few geographic areas or operate in all but pay attention to local variations. For example, Hyatt Hotels recognized the need to modify its product line to meet personal needs. Hyatt initiated a program to offer regional dishes. The Four Seasons hotel in Washington DC, become so concerned about offering local cuisine that it contracted with nearby farmers to ensure a supply of local products that were not always available from wholesale vendors.
2. **Demographic segmentation:** Another important market segmentation, base is demographic segmentation. In demographic segmentation the market is divided into groups on the basis of variables such as age, family, size, family life cycle, gender, income, occupation education, religion, race,

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generation, nationality and social class. A very common and popular way to distinguish customer groups is demographic segmentation. Buyer's wants, preferences and usage rates are commonly associated with demographic variables so it is easy for the marketers to segment the market on the basis of demographic segmentation.

3. **Psychographic segmentation:** In psychographic segmentation buyers are classified into different groups on the basis of social class, life style, and personality. People within the same demographic group can exhibit very different psychographic profiles.
4. **Behavioural segmentation:** The buyers are divided into groups on the basis of their knowledge, attitude and use or response to a particular product in behavioural segmentation. Behavioural variables are considered best for developing market segments by several marketers.

   Three factors have to be considered by the marketers while evaluating different market segments. These three factors are as follows:

   (i) Segment size and growth

   (ii) Segment structured attractiveness

   (iii) Company objectives and resources

13.9.5 The Eight VALS Group

By using self-orientation and resources dimensions, VALS defines eight segments of adult buyers who have different attitudes and exhibits distinctive behaviour and decision making patterns. These segments are innovators, thinkers, achievers, experiencers, believers, strivers, makers and survivors.

1. **Innovators:** Innovators are successful, sophisticated, active take-charge people with high self-esteem and abundant resources. They are leaders in business government and are interested in growth, innovation and change. They seek to develop, explore and express themselves in a variety of ways, sometimes guided by principles and sometimes by a desire to have an effect or to make a change. They are very conscious about their image. Image is important to them, not as an evidence of status or power but as an expression of their taste, independence, and character. They possess a wide range of interests are concerned with social issues and show a cultivated taste for the finer things in life.
2. **Thinkers:** Thinkers are mature, satisfied, comfortable, reflective people who value order, knowledge and responsibility. Most are well educated and in professional occupations, content with their career, families and tend to centre on the home. Thinkers have the moderate respect for the status quo institution, but they are open minded to new ideas and social changes. They tend to base their decision on firmly held principles and consequently appear calm and self-assured.

3. **Achievers:** Achievers are successful career and work-oriented people who like to feel in control of their lives. They value predictability and stability over risk. They are deeply committed to work and family. Work provides them with a sense of duty, material rewards and prestige. Their social lives are centered on family and career. Achievers live conventional lives, are conservative and respect authority and the status quo. Image is important to them. They favour establishment prestige products and services that demonstrate success to their peers.
4. **Experiencers:** Experiencers are young, vital, enthusiastic, impulsive and rebellious people. They seek variety and excitement, savouring the new, the offsets and the risky. At this stage in their lives they are politically uncommitted, uninformed and highly ambivalent about what they believe. Their energy finds an outlet in exercise, sports outdoor recreation and social activities.
5. **Believers:** Believers are conservative conventional people with commitment to family, community and the nation. Living by a moral code is very important to them. As buyers, believers are conservative and predictable and favour American products and established brands their income, education and energy are modest but sufficient to meet their needs.
6. **Strivers:** Strivers seek motivation, self-definition and approval from the world around them. They strive to find a secure place in life, unsure of themselves and low on economic, social and psychological resource. Strivers are concerned about the opinion and approvals of others. Money defines success for strivers, who do not have enough of it and often feel that life has given them a raw deal. Strivers are impressed by possessions, but what they wish to obtain is often beyond their reach.
7. **Makers:** Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work and physical recreation and have little interest in what lies outside that context. Makers experience the world by working in it, building a house, raising children and having enough skills, income and energy to carry out their projects successfully. Makers are politically conservative, suspicious of the new ideas, respectful of the government authority and organized labour. They are unimpressed by the material possessions other than those with a practical or functional purpose.
8. **Survivors:** Survivors tend to be chronically poor, low educated, low skilled, elderly and concerned about their health. Preoccupied with the urgent needs of the present moment. They do not show a strong self-orientation. Their chief concerns are for security and safety. Survivors are cautious buyers. They represent a very modest market for most products and services but they are loyal to favourite brands.

9 **Personality:** Marketers use personality variables to segment the markets. They endow their products with brand personality that corresponds to buyer

personalities. Many companies within the hospitality industry have been developed as an extension of the founder's personality.

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Check Your Progress

15. List two benefits of market segmentation.
16. What are the eight segments of adult buyers, according to VALS?

13.10 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The bank's wish for higher profits and the changes in the demographic structures are two factors affecting the increasing use of marketing services in the banking sector.
2. There are two methods of personal selling in banks. The first method entails the banker and customer interacting face to face at the bank's branch office. In this method, the entire personnel, which includes the banks' employees, managers and chief manager, partakes in the selling process. The second method involves the customer representatives visiting the customer at home.
3. Advertising campaigns and use of media help obtain the following objectives:
   - Create a good image of the bank and its services
   - Emphasizing efficient service
4. The following criteria should be kept in mind while media selection for banking services:
   - Cost
   - Choice of media for the target market
   - Market competition
   - Nature and characteristics of services
   - Message content
5. The main purpose of insurance is to offer people safety and security against any uncertain loss.
6. The main focus of insurance marketing is to formulate an effective marketing mix for the insurance business enabling the organization selling insurance to gain maximum profits and thrive successfully.
7. The perception of customers for using transport services is based on the following five factors:
   - Safety and cleanliness
   - Savings and cost
   - Reliability

- Service hours
- Frequent service

8. Market segmentation is done in tourism sector for the following reasons:
   - To develop the product to satisfy specific needs
   - To identify where and how to sell the product
   - To judge if and how to mix different segments together
9. Stanford Research's Values and Lifestyles Programme (VALS) is an example of psychographic approach. These are four value groups divided into nine lifestyle categories—Survivors, Sustainers, Belongers, Emulators, Achievers, 1-am-Me, Experiential, Societally Conscious and Integrated.
10. A particular form of business tourism is conference/congress/convention tourism, and considerable attention has been focused on this form of tourism in recent years with the development of large conference centres built purposely in many cities and seaside resorts. However, most conferences take place in hotels and educational establishments (universities, colleges).
11. Seasonality causes particular problems for employment, in that workers employed in the tourism industry for part of the year may have no opportunities for employment during the rest of the year. In addition, the seasonal nature of employment inhibits training and career progress. Seasonality can result in overcrowding and overuse of facilities in destinations during part of the year, while for the remainder of the year facilities may be considerably underused or not used at all, resulting in inefficient use of resources and loss of profit potential.
12. There are four principal strategies for managing seasonality: changing the product-mix, market diversification, differential pricing and encouragement/facilitation by the state of the staggering of holidays.
13. Cleanliness, variety, accuracy and timeliness in service delivery, overall experience, and effectiveness in managing errors or oversight are the five factors determining guest satisfaction in hospitality sector.
14. The marketing department of a hospital performs the following functions:

    (i) Identify the customers of the hospital. There are four categories of customers:

      (a) Private patients

      (b) Health insurance patients

      (c) Complimentary patients

)d) Retainerships

    (ii) Understand the terms of the relationship with each retainer and HMO to ensure compliance from all.

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15. Market segmentation process has many benefits. Some of them are as follows:
    - Understanding the needs of buyers: It becomes easier for marketers to understand the needs and wants of the buyers and homogeneous nature of needs.
    - To adopt better positioning strategies: As marketer is able to know the homogeneous needs of the specific market due to market segmentation, it becomes easy for him or her to position the products and services as per the market needs.
16. VALS defines eight segments of adult buyers who have different attitudes and exhibits distinctive behaviour and decision making patterns. These segments are innovators, thinkers, achievers, experiencers, believers, strivers, makers and survivors.

13.11 SUMMARY

- The purpose of services marketing for banks is not only selling banking services to customers, but also to create a good and prospective image of the bank in their minds.
- Bank's wish for higher profits and change in the demographic sector are the reason behind the increasing use of marketing services in the banking sector.
- Insurance is a form of risk management used for hedging against a risk of an uncertain loss or a contingent. Insurance is the equitable transfer of risk for a loss from one entity to another in exchange for a certain amount of payment.
- An insurance carrier is a company responsible for selling insurance to the policyholders who are the people buying that insurance policy from the insurers. An amount known as insurance premium is charged for a certain amount of insurance coverage.
- Insurance is known as the agreement between people for facing common risks and making small contributions at certain intervals towards the common fund. The main purpose of insurance is to offer people safety and security against any uncertain loss. Insurance marketing is the marketing of insurance services to create customers for buying insurance and drawing profits by satisfying them.
- The main focus of insurance marketing is to formulate an effective marketing mix for the insurance business enabling the organization selling insurance to gain maximum profits and thrive successfully.
- The Indian insurance market has become highly competitive due to the advent of private insurance companies in alliance with insurance experts overseas.

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- Insurance marketing uses the tools of services marketing to create a marketing mix for selling insurance efficiently and effectively for the business to thrive and prosper.
- Marketing of transport services is also an important element of marketing due to the increased competition in the market. Competition increased with the advancement in technology, with new products emerging in the market every few days.
- In order to build a strong brand, it is important for the transport system to define the core value and motive for its services. Each personnel of a transport company should be a brand ambassador for the company and should portray a good impression in the market about their services to customers.
- Marketing should serve its basic purpose of providing the required information to interested customer segments before their journey. One of the important roles of marketing is to systematize the information which has to be provided to customers.
- Even though it is commonly believed that 'there is no such thing as bad publicity', it is better for the service providers to attract media coverage that can be controlled and steered by them.
- It is important for a government's tourism departments, in collaboration with the private sector, to adopt a complete marketing role apart from promotion to product development. It should also act as the catalyst in the formulation of the destination's marketing strategy. And it should also monitor the effectiveness of sales programmes, lending it support as and when necessary.
- Travel for leisure is central to our understanding of tourism. Travel for leisure as a broad category can be broken down into mainstream tourism, special interest tourism and alternative tourism.
- To make sense of large countries, they may have to be broken down into regions, areas, counties, provinces, cities, towns and resorts. Each one has first to be studied separately. The various means of categorizing tourists illustrate the complexity of human behaviour.
- Business travel is an important segment of the tourism market, and in certain sectors it plays a major role. The business travel market is characterized by relative lack of seasonality, last-minute booking and inelastic response to price a to the extent that seasonality does not exist at all.
- 'Seasonality' in tourism refers to the tendency of tourist flows to be concentrated into relatively short periods of the year. In Europe and North America, for example, the summer months of July and August are when a large proportion of the population goes on holiday.
- The demand for international tourism is measured in terms of the number of visits to a foreign country, or in terms of expenditure by visitors in the

destination country. Occasionally, however, population features as a separate explanatory variable rather than demand and is expressed in per capita form.

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- Some of the techniques available for demand forecasting in tourism are Univariate time-series method, exponential smoothing model, single exponential smoothing method, trend curve analysis, classical decomposition approach, and box Jenkins univariate approach.
- A hotel is an establishment whose primary purpose is to provide accommodation to a bona fide traveller along with additional services such as food and beverage services, housekeeping services, laundry services and uniformed services.
- The criteria for classification are based on:
  - o Size or number of rooms
  - o Location
  - o Type of clientele
  - o Length of stay
  - o Levels of service
  - o Management and affiliation
  - o Ownership of guests
  - o Unusuality of hotels
- A hotel requires good marketing in order to attract customers over their competitors. They need to retain their current customers in such a manner that they become regulars to the hotel and spread positive word-of-mouth regarding it to known people.
- Cleanliness, variety, accuracy and timeliness in service delivery, overall experience, and effectiveness in managing errors or oversight are the five factors determining guest satisfaction in hospitality sector.
- Consultancy service uses a variety of methods and techniques to market advisory services. One needs to understand the fact that apart from gaining new clients, it is important to intensify the existing client relationships as well.
- Canvassing, cold visits, direct mail, unsystematic cold contacts, unspecific cold calls, cold calls linked to a competitive advantage, cold calls with a business solution and follow up are the different direct ways of promotion for consultancy services.
- Word of mouth marketing, networking, referrals, and customer relationship marketing are the indirect marketing approaches followed by consultancy services.

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- The marketing of hospital services starts from the structure of the hospital. The architect of the building must keep in mind the nature and business interest of the hospital and design it accordingly.
- The main concept which one has to keep in mind when hiring hospital staff is that they will be the marketers of the hospital facility to the guests and patients. Recruiting, starting from the gate-keeper to the Administrator or Director, must be done with a lot of precision and care in order to hire the right person for the right department
- Market segmentation is the key to revenue management in the hotel industry. It allows a marketer to target and market to various types of consumer groups with different behaviours in order to match their needs and budget level.

13.12 KEY WORDS

- **Insurance:** It is a form of risk management used for hedging against a risk of an uncertain loss or a contingent. Insurance is the equitable transfer of risk for a loss from one entity to another in exchange for a certain amount of payment.
- **Bancassurance:** Insurance agencies are using banking channels to provide insurance services to a wider segment of customers called bancassurance, a fairly new concept in banking and insurance sectors.
- **Seasonality:** It refers to the tendency of tourist flows to be concentrated into relatively short periods of the year. In Europe and North America, for example, the summer months of July and August are when a large proportion of the population goes on holiday.
- **Unsystematic cold contact:** Another type of cold contact is 'unsystematic'. In this case, the mails or calls do not focus on a specific potential client, but on a number of potential clients. For example, a mail is sent to a whole region or business sector.
- **Innovators:** Innovators are leaders in business government and are interested in growth, innovation and change. They seek to develop, explore and express themselves in a variety of ways, sometimes guided by principles and sometimes by a desire to have an effect or to make a change.

13.13 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the different marketing strategies adopted by the banking sector since 1950?

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2. Write a short note on bancassurance.
3. Write a short note on the recent trends in international tourism.
4. What are the classifications of hotels on the basis of location?
5. Mention the classifications of hotels on the basis of clientele?
6. What are the factors affecting the success of a hotel?
7. What are the direct ways of promotion for consultancy services?

Long-Answer Questions

1. Explain in detail the components of marketing mix for the banking sector.
2. Discuss the components of marketing mix for the insurance sector.
3. Delineate the steps for developing a successful marketing campaign for transport services marketing.
4. Explain the concept of demand in tourism.
5. Describe the techniques available for demand forecasting in tourism
6. Examine the different classifications of hotels.
7. Analyse the components of consultancy services marketing mix.
8. Discuss the indirect marketing approaches for consultancy services.
9. Describe the process of market segmentation.

13.14 FURTHER READINGS

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UNIT 14 SERVICE QUALITY

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Structure

14.0 INTRODUCTION

Service quality is an expression which explains a contrast of expectations with accomplishments. A company with superior service quality will meet client requirement though staying reasonably economical. Superior service quality might add to economic competitiveness. This endeavour may be realized by gaining knowledge and improving functional procedures; classifying problems rapidly and methodically; setting up applicable and dependable service performance processes and assessing customer pleasure and other performance results. In this unit we will discuss in detail about service quality of marketing.

Service quality is a business management expression used to depict accomplishment in service. It indicates both, objective and subjective characteristics of service. The precise capacity of a purposeful feature of customer service needs the application of meticulously predefined standards. The measurement of subjective characteristics of customer service depends upon the compliance of a likely advantage with the apparent outcome. As a result, this depends on the customer's conception of the service they are likely to get and the service provider's acumen to offer this expected service.

Predefined objective criteria might be practically unachievable, in which case, the finest probable realizable result turns out to be the ideal. A purposeful standard might yet be meagre as a one-sided term. Service quality can be linked to service capability (for instance, worker's credentials); service process (for instance, the promptness of service) and service outcome (customer satisfaction).

14.1 OBJECTIVES

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After going through this unit, you will be able to:

- Understand the scope of service quality
- Examine the measurement and tools for achieving service quality
- Discuss the causes and principles of service quality
- Analyse the problems of service quality

14.2 MEASUREMENT OF SERVICE QUALITY, SCOPE AND TOOLS

Quality refers to conforming to the requirements. Therefore, the first task of a service firm must be the establishment of specifications and requirements, following which, the goal set by the various functions of the organization in terms of quality must be strict compliance to these specifications. But the problem with this definition of quality is, 'whose requirement and whose specifications'. According to another definition, quality has to do with 'fitness for use'. This definition has its primary basis in the satisfaction of customer requirements.

It is possible to unite these two concepts in the concept of customer perceived quality. As such, only customers define quality, which occurs where services are supplied by a firm to specifications that satisfy customer requirements. Efforts are made to differentiate the objective measures of quality from those measures which have their basis in more subjective customer perceptions. The expressive aspect and instrumental quality are the two significant dimensions of service quality. The former is associated with the psychological or intangible aspects of the service and the latter refers to the physical aspects of service.

More recent studies identify technical quality and functional quality as the two principal components of quality. The former has to do with the relatively quantifiable service aspects, which both the supplier and the customer can measure. For instance, the waiting time at a super market, check-out, reliability of train services, etc. However, because the producer and the consumer directly interact in case of services, the manner in which the technical quality is delivered also influences the consumer. This is functional quality, and unlike the elements of technical quality, it is impossible to measure it objectively. For example, factors such as the perception of the customer with regard to the staff's handling of queries and the environment in which the queue is formed influence the functional quality of a check-out queue at a super market. The customers' perception of service quality is also affected by the corporate image of the services, which has its basis in both functional and technical quality.

The definition of quality as the degree to which customer requirements are matched by a service does not clarify exactly what those specifications are. Due to the lack of easily identifiable criteria for evaluating service quality, it becomes

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more difficult to articulate customer needs and communicate the degree of quality that is being offered. The quality of services is a far more abstract concept than the quality of goods, in which case, the technical aspects of quality are emphasized more. In other words, consumers hold abstract expectations with regard to quality. Consequently, they judge the quality of a service as the degree to which these initial expectations are matched by the perceived delivery of the service. Thus, if the expectations are low to begin with, then even a service of mediocre standard might be perceived as of high quality and if the expectations are high, then the same degree of quality may be considered low. More research needs to be carried out before the processes that determine the formation of service expectations among customers can be understood. Quality is usually evaluated against three levels of expectation: the desired level of service (what the customer wishes for), the adequate level of service (the standard that might be accepted by the customer) and the predicted level of service (what the customers believe to be the most likely possibility of the actual occurrence).

The quality of the service is antecedent to customer satisfaction, which in turn is important in terms of its affect on the customers' purchase intentions. It is evident from empirical evidence that purchase intentions are affected more by customer satisfaction than quality.

Since services are usually produced and consumed at the same time, it becomes difficult to analyse service quality. There are two interfaces between the production and consumption of services. One is via the standard marketing mix, and the other is through buyer-seller interaction.

Consumers who buy manufactured goods encounter the variables of only the conventional marketing mix of the manufacturer. Since the process of production of goods cannot always be seen by a consumer, it cannot be utilized as a criterion for assessing the quality. Contrarily, the result of service inseparability is that the process of production is viewed as a criterion for quality assessment. Since services are intangible, variable and inseparable, they create a problem for the management of service quality in that a set of buyer/seller exchanges emerges and no two services are performed in the exact similar manner.

14.2.1 Importance of Service Quality

Research, analysis and quality standards are some of the important elements of service quality.

Service Quality Research

An important factor resulting in the poor performance of service firms is lack of knowledge of the expectations of the customer. Although a number of firms are eager to provide service quality, they fall short because they do not accurately understand the customer requirements. This understanding is complicated still further by the lack of well-defined cues, unlike in the case of goods. Marketing research elicits some information about customer expectations and service perceptions. Service organizations should ask the following key questions about their customers: how is service delivery perceived by customers, what service levels are expected

by the customers with regard to the features of a service, what are the service features that are regarded by the customers as important, etc.

For the effective management of service quality, the marketing research programme should be:

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(i) **Shared with employees:** It becomes possible to improve the performance of employees in terms of delivering service quality by acquainting them with the outcomes of the customer expectation studies and complaint analyses.

(ii) **Undertaken with employees:** Since in the service sector, the staff are closer to the customers than the management, asking them about their problems, encouraging them to suggest ways to improve the services and identifying their requirements and finding out their personal motivational sources becomes an important task.

(iii) **Ongoing:** In view of the constantly changing customer expectations and perceptions and the evolving nature of the services provided, it becomes necessary to continuously administer a service research process in order to identify and immediately act on any change, if required.

(iv) **Varied:** Each research is limited in its own way. Therefore, a variety of quantitative and qualitative techniques are used for achieving comprehensive insight into a problem.

Regular customer surveys

Surveys measure the level of satisfaction that customers experience from service providers. The growing variety of competing services available now as well as the customers' increasing awareness of the fact that they are in receipt of a service for which they pay a price whether directly or by means of taxes has led them to expect a consultation with them on the part of the service provider. In this way they can clearly voice their opinions about the degree of satisfaction provided.

Members of the public are in constant receipt of literature from an extensive variety of service providers requesting feedback on the quality of service received by them. For instance, the passengers of an aircraft are asked to fill out questionnaires while returning from a vacation. The recipients of such surveys are usually asked to set down the complaints they might have regarding the service offered and suggest ways for improvement. The people assume that the service provider will use this data for taking remedial action in case of expectations not being met. However, a number of such surveys are spurious and characterized by a lip service approach to marketing research and the issue of quality service.

Analysis of complaints

Customers usually voice their dissatisfaction by complaining about the service provided. Customers can make complaints directly to the provider or indirectly through intermediaries or watchdog bodies. Customer complaints referring to

instances of what is deemed poor quality service are dealt with constructively as they double as a source of data, based on which policies are formulated to improve the quality of the service. At the same time, it must be recognized that the complaints made by customers are not an adequate source of information. This is because a majority of customers refrain from complaining and continue to wallow in their dissatisfaction and communicate this dissatisfaction to others. Some customers simply switch to other suppliers and fail to provide any potentially valuable data regarding the factors that resulted in their switching over to another company.

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In truly market-oriented service firms, complaint analysis forms a useful indicator of the point at which the service delivery process seems to be breaking down. Complaint analysis performs a significant role as a part of the overall programme to stay in contact with the customers. Constantly keeping track of the complaints can be a comparatively cheaper source of data that enables companies to review the matters of concern most important to customers on a continuous basis and take remedial action for any apparent problem. Once the complaints are received by the company, the staff can directly contact the customers and interact with them about issues that are of concern to them. Besides extracting the views of the customers on these specific concerns, the company can also attempt to elicit their opinion about customer services in general. British Airways set up a facility for customers to air their grievances on videotape at Heathrow Airport, allowing them to alleviate their pent-up feelings, while at the same time acquiring useful information on which to act.

Employee research

Undertaking research amongst employees gives them an opportunity to air their views regarding the provision of services and their perception of how they are received by the customers. Formal feedback can be obtained from the staff through staff suggestion schemes. The suggestions made by the staff with regard to providing the service more effectively/efficiently play a significant role in enhancing the quality of the service. Researching the employee requirements can be useful in identifying the policies that can enhance their motivation to deliver high quality service. Thus, focus groups and interviews could be utilized to collect qualitative data on the motivations, wants and needs of the employees and their attitudes towards policies, benefits, working conditions, etc. This can be followed up with appropriate quantitative analysis that involves the personnel in the research process. For instance, videos of interviews and group discussions with customers could be shown to them and then circulated along with the research findings to aid in improving their appreciation of the issues concerned with the quality of a service.

Intermediary research

Service intermediaries have a valuable role to play in the service delivery process. The focus of research into intermediaries has been on the following two aspects:

- In cases of the intermediaries forming a significant part of the process of service delivery, it is the intermediaries' performance that determines the quality perceived by the customers. For instance, the perceived indifference

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or slowness of ticket agents can tarnish the perceived quality of an airline. The mystery shopper research methodology can be used for monitoring the standard of quality that the intermediaries deliver.

- The position of intermediaries in terms of their being co-producers of services is further down in the channel of distribution, and this places them in a position that is closer to the customers. This enables them to present valuable feedback about customers' perceptions and expectations.

Quality is a complex concept which cannot be satisfactorily measured by a series of isolated ad hoc studies. Service organizations need to acquire more knowledge about their customers with the help of a market research oriented approach that focuses on customer perceptions and expectations. There are two basic dimensions of service provision, namely, outcomes and processes. The only factors that are relevant in determining service quality are those that customers perceive as being important. Customers alone can be the judge of quality; no other judgements are relevant. Determining what is expected by a customer from a service as well as identifying the characteristics that describe service in general (i.e., the definition of service in the customer's mind) is important. Instruments must be developed for measuring the customers' perception of the quality of a service against their expectations.

Setting quality standards

Service level specification has an important role to play in conveying the standard of quality that may be expected by the consumers. It communicates the standards that the service organization expects from its personnel. The way an organization promotes itself conveys a general notion about the level of quality that is sought to be delivered by it. The following ways assist in stating more specific standards:

- Organizations rely on their business terms to provide a basis for the determination of the level of service that they must deliver to the customers. Usually, they function with the aim of protecting customers from extraordinarily poor services instead of promoting high standards of excellence proactively. For instance, very few promises are made by tour operators about the quality of their service except to compensate for delays that go beyond specified levels.
- Customer charters that are worded generally exceed the minimum level of business terms as the performance standards that are sought to be achieved in dealing with the customers are stated in them. Charters are usually published by banks specifying (in general terms) how they will conduct accounts and handle complaints.
- The organization may offer specific service performance guarantees in terms of service outcome. For instance, parcel delivery firms frequently guarantee the delivery of a parcel within a specific number of days and if they are unable to come up to this standard, they agree to compensate the client. At times, the focus of the guarantee is on how the service is produced instead of the final outcome. For instance, standards are set by building societies

for the time that will be taken by them to arrive at a decision on mortgage applications. Although the publication of specific guaranteed performance to the customers can provide numerous benefits, there may also be adverse consequences in the form of claims for misleading advertisement or heavy compensation claims in case of failure to perform. Therefore, a number of highly-specific targets find themselves confined to performing the internal function of controlling and monitoring the staff instead of providing guarantees to prospective customers. For instance, though targets are set by a bank with respect to quality standards such as making available functioning ATM machines and short customer-queuing times, no guarantees are given about the specified level of service to be provided to the customer.

- A number of service organizations are members of professional or trade associations and integrate the code of conduct set by the association into their own offerings (e.g., doctors, solicitors). Certain minimum standards are specified by them and attempts are made to ensure that the quality of the service provided does not fall below this level. These codes of conduct reassure prospective customers and set the minimum standard for employee performance.
- The adoption of the Indian standard (ISI), ISO, etc., has more applicability. High service quality levels are not guaranteed by most of these standards. This is granted to organizations that have a management system in place to ensure consistency in the quality standards. However, deciding whether this consistent standard is high or low is a matter of subjective opinion.
- In the case of some public sector services operating in monopolistic environments, the standards of quality may be externally imposed. There may be a regulatory authority possessing the authority for setting specific service targets (e.g., regulatory bodies for electricity, telephone etc.).

14.2.2 Managing the Marketing Mix for Quality

Service quality management ensures that the gap between consumer expectations and the perceived services delivery is as small as possible. There are a number of important dimensions to this task. First, the marketing mix formulation and its communication to potential customers must be as realistic as possible. Exaggerated claims lead to high expectations that an organization may not be able to meet and thus the service is likely to be perceived as being of poor quality.

Secondary non-marketer dominated factors such as word-of-mouth information, customer tradition, etc. also need to be considered as their presence may have the effect of increasing expectations. There exists a dynamic relation between the perception of customers and their expectations. It is not enough to merely maintain the customers' level of perceived quality, particularly in the face of rising expectations. Therefore, the task of marketing mix management is to close the quality gap over a period of time either through an improvement in the service offering or by keeping down the expectations of the customers.

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Every aspect of the marketing mix is affected by quality. It is not possible to isolate the decisions regarding service specifications from the decisions having to do with the other components of the marketing mix. All decisions affect the perceived standard of service delivery as well as the level of customer expectation.

The expectations of consumers in terms of the quality of the service are affected by the promotion decisions of the company. In the instances of competing services being evaluated and selected based on marketer-dominated sources of promotion, the communication medium and the message itself could go a long way in meeting customer quality expectations. Promotions set expectations which organizations struggle to meet.

But sometimes, the image that the promotion creates can in fact supplement the perceived service quality. This usually happens in the case of goods where the products are supplemented by the intangible image. For instance, customers may believe that a certain cold drink is of higher quality than another cold drink having the same technical quality, but promoted differently.

This happens less frequently in the case of services because customers are more involved in the process of producing and consuming a service and are therefore afforded better opportunities for judging the quality of the service. Nevertheless, the promotion activity does supplement the perceived service quality for certain publicly-consumed services. For example, promoting the gold credit card may add to a customer's sense of having bought a prestigious and exclusive facility, the value of which would not have been recognized if the additional prestigious value of the card had not been promoted.

The expectations of customers as well as their perception of the quality of a service are affected by the pricing decisions of the service firm. All other factors being equal, prospective customers can use price as the criterion to judge the quality of a service. For instance, if two restaurants outwardly appear similar, but different prices are charged by them for the same meal, customers would assume that higher service quality would be provided by the restaurant charging the higher price, which they would then come to expect in the service delivery. They would then proceed to assess the service delivery against this benchmark.

The level of quality that can be built by a service firm into its offerings can be influenced by the price that is charged for the service. In terms of price positioning, it is feasible to conceive of a line from high price/high quality to low price/low quality, but it is not possible to sustain high price/low quality and low price/high quality for long. Low prices result in inadequate margins for providing high service quality.

The quality expectation of the customers and the actual service performance can also be influenced by the place decision. High quality agents selling low quality services may give rise to heightened quality expectations and if this is followed by poor delivery, the agent's own image may get tarnished. The customer's perceived quality of the service can be affected by how the service delivery is initiated, processed and followed up by the intermediary. Recruiting and monitoring the

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network of intermediaries to encourage them to share the principal service organization's commitment to service quality is an important aspect of the quality management process. The employees form a significant element in the manner in which consumers perceive functional quality. Therefore, the interaction between the buyer and the seller assumes importance in service quality management. As such, it becomes necessary to recruit, train, motivate and control the employees as part of the marketing mix as the personnel who directly perform a service are in the best possible position to observe and identify any impediments to quality.

Before formulating any marketing strategy, a firm must clearly define what quality means for it. The next step is to come up with a method that measures quality in quantifiable terms, so that any deficit towards achieving the same may be identified and accordingly rectified.

Service elements are different from those of manufactured goods. The logic behind producing and marketing a good or service product is to achieve conformance, i.e., to pre-empt customers' needs and expectations and strive to meet them. In case of manufacturing, it is relatively easier to measure customers' needs, as there is homogeneity of need over large segments. For instance, customers value a blanket in terms of its core value, that is, to impart warmth, irrespective of their class, gender, personality traits, etc. Since the manufactured goods can be owned and endure for a long time, it is comparatively easier for the marketers to set the price and justify it to the target customers.

On the other hand, a service is intangible and perishable involving no ownership on the part of the customers. Hence, it becomes extraordinarily difficult for the marketers to put across the value of a service to the customers. Hence, quality takes on a completely different implication here. It may be translated as perceived quality, that is, the quality as perceived by the customers. The assessment of quality, therefore, more or less lies on the customers and not the producers. A restaurant may believe that it serves the most authentic Thai food in the city, but unless customers think so, the quality would not be translated into perceived quality, which in turn will not fetch results in terms of revenue and more customers. Service market analysts have come up with several models and approaches that aim at defining parameters for measuring and imparting service quality. One of the most widely recognized methods is SERVQUAL.

14.2.3 Measuring Service Quality

Service quality cannot be measured. It is difficult to measure the quality of services as they are not tangible and are based on individual experiences. Even if the organization and the employees give their best, the customer can remain unsatisfied. The main points to be considered to measure quality service are:

1. Generating answers from the consumer about the quality of services. After the experience of the customer, a survey should be conducted to assess the success of the service. There should be a receipt or a feedback form to be given to the customers to get the customer feedback for improvement in services.

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2. The organization should possess complete knowledge about the product, business or the particular salesperson, it should question the knowledge of the person who is providing the service, and should check whether they are behaving well with the customers as well as their colleagues.
3. To assess the consumer's feelings about the company and other employees.
4. The trustworthiness of the company or employee can also be taken into consideration by questioning whether the employee or company performs the service in an efficient manner. They should also ascertain whether the customer feels that the company or employee would be able to perform the service in the future in an effective manner.
5. The responsiveness of the employee or organization can be taken care by questioning, whether employees are able to respond to the customer's needs with interest or not. Whether service provided is quick enough or not.
6. The tangible aspects of a customer's experience can be calculated by knowing the function of all the equipment appropriately, whether the product or business appears to be satisfactory or not.

14.3 SERVICE QUALITY GAP MODEL

Let us discuss the various gaps that occur during the service process.

Zeithaml, Berry and Parasuraman came up with four gaps that occur during service processing within the organization. They all lead to the most severe gap, that is, the gap between what the customers expected out of a service and what, according to the customers' perceptions, was eventually delivered. Later market analysts modified this gap model and added three more gaps that can possibly occur during a service process. These gaps have been discussed as follows:

1. **Knowledge gap:** This gap may occur at the beginning of the service process, when marketers assess what the customers' needs and expectations are from a particular service. The gap happens when there is disparity between the customers' needs/expectations and what the marketers believe them to be.
2. **Standards gap:** The next step of the service process is management's definition of what the target segment needs and expects. This translates into setting down standards to ensure that the service delivery meets those expectations. The gap occurs when there is a disparity between the management's perceptions and the actual delivery standards that are established by the service provider.
3. **Delivery gap:** The next step for the service provider is to strive to deliver the service according to its set delivery standards. The delivery gap takes place when the actual performance ability of the service provider does not match the standards set down for service delivery.

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4. **Internal communications gap:** The next step is for the marketing team to formulate marketing and promotional campaigns. They promote the service on the basis of specific features, quality level and so on. The internal communication gap happens when the campaigns overpromise. In other words, the promotional campaigns promise more in terms of features, quality, and performance than what the service provider can actually deliver.
5. **Perceptions gap:** The next step entails the delivery of the service to the customers. The possible gap that may occur at this stage is in terms of what is actually delivered and how customers perceive what is delivered.
6. **Interpretation gap:** In advance of delivery, the service providers try to communicate certain promises to the customers. The interpretation gap happens when the communication between the customer and the service provider is done at cross-purpose. In other words, when what the service provider promises is interpreted differently by the customers.
7. **Service gap:** It is the most severe gap that undermines the entire service process. In a way, it is a culmination of the other six kinds of gaps. When there is a disparity between what the customer expected from the service and how he or she perceived the eventual service delivery.

Knowledge gap, perception gap, interpretation gap and service gap are external gaps, that is, they take place between the service providing organization and the customer. The remaining three are internal gaps, as they take place along the organizational hierarchy.

The key to maximizing customers' satisfaction and their perception of quality in relation to the delivered service is to identify these gaps at appropriate stages and implement measures to close them as much as possible. The following guidelines may be put to use to achieve the desired objective:

- A comprehensive research must be undertaken to find out what the customers expect.
- Organizations that already have a customer base may consider forming customer panels and forums so that the relevant information in terms of expectations and needs that they have from particular services may be obtained.
- A careful analysis of the assembled data is extremely important. An erroneous reading of the data may lead to wrong conclusion and hence knowledge gap.
- The analysis must be incorporated within the action plan.
- The management must be focused towards providing high level of service quality.

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- The management must establish clear, logical and realistic goals for the desired service quality.
- The management should prioritize those elements, and the corresponding jobs, of service process that have the highest impact on the service quality.
- There must be regular feedbacks to measure the service quality.
- The role of each employee must be clarified in terms of its contribution to creating highest service quality.
- The people hired for interacting with the customer must be carefully selected.
- Regular reward programs must be organized so as to motivate the employees to deliver best possible service quality.
- Empowering employees and managers encourages quick decision-making and improvisation in case of a service failure.
- The customers may be treated as partial employees.
- Customers play specific roles in service delivery. It is important to make them understand their role in achieving service quality.
- The advertising campaigns must be created not in isolation but by taking inputs from operational level employees also.
- Internal communication between all departments, especially human resource, marketing and operations must be facilitated.
- It helps to clarify before the purchase, what the customers should expect and what not to expect.
- The clarification on the part of service firm helps build trust in the customers and closes service gaps.
- All advertising campaigns must be tested first on a small segment of ordinary people in order to understand what and how they interpret the message. This helps close down the interpretation gap.
- In order to close down the perception gap, it helps to offer as many physical evidences and tangibles to the customers as possible.
- Each organization must develop its own gap identifying model and work towards closing those gaps.

14.3.1 Strategies for Improving Service Quality

The quality of a service is not a matter of chance. Strategies that ensure high quality standards and consistency in the service delivery need to be developed by service organizations. The following requirements are necessary for this:

- A customer-focussed strategic concept.
- A track record of the top management's commitment to quality, i.e., giving the importance to quality indicators as the financial ones.

- The setting of high standards and communicating these expected standards to employees.
- Systems for monitoring performance. Top service firms regularly evaluate their own and their competitors' performance.
- System for satisfying complaining customers. It is important to respond quickly and appropriately to customer complaints.
- Satisfying employees as well as customers. The significance of contact personnel and the role of 'internal marketing' are understood by successful service firms, i.e., (i) The best possible people can be employed and retained (ii) The best possible work will be done by them.

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Service management entails maintaining a consistent standard of quality. In labour-based service, this becomes difficult on account of inherent variability of personnel as compared to manufactured goods. Inseparability of most services does not generally allow an organization to undertake quality-control checks between the points of production and consumption.

Total Quality Management (TQM)

TQM is an approach to improve the effectiveness and flexibility of an organization as a whole. It is a multi-disciplinary approach. TQM organizes and involves all employees in all activities, and all functions and at all levels. The activities of every staff member has an impact on the quality received by customers, including non-contact personnel, whose actions in activities such as processing invoices or orders could nevertheless have implications for customer satisfaction.

An important aim of TQM is the generation of widespread awareness of customer needs among employees, and standards of quality that are expected by customers. In addition to meeting customer requirements effectively, TQM is concerned with the efficiency with which these requirements are met. TQM lays stress on reduction of waste – defined as anything that neither adds value nor contributes towards meeting customer requirements. One target for cost reductions is transaction cost which represents the cost of governing production systems.

Within services sector, the concept of just-in-time (JIT) can be extended to the deployment of staff whereby extra personnel are brought in at short notice to meet peak demands. TQM encourages employees and functions areas to regard themselves as providers and customers of other departments.

Quality Circles (QC)

Quality circles often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery. In case QCs are used in the delivery of services, the marketing aims of the service organization must be incorporated into the TQM package and QC agenda. QCs are best suited for high-contact services requiring substantial personnel-consumer interaction. The idea is to bring together the front-line staff, who are better positioned for

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identifying the quality weaknesses in terms of their effect on the customers, and the operational staff that can impact service quality though they do not directly interact with the customers. By collaborating with each other the personnel can recognize problems and suggest solutions for them. For example, QCs for garages could include the reception staff interacting with the customers and the mechanics responsible for producing the services.

To achieve success, it is necessary for the QC leader to display an inclination towards listening and acting on the concerns brought to the group's attention by any of the QC members. This is imperative for the sustenance of the QC. The QC can continue functioning only if the members sense that their involvement is effective and real. For this, a two-way communication process is a must within the circle. The purpose of the quality circle is defeated if it functions merely as a routine listening session. This could lead to circle member suspecting it of being only another tool for management control. In such a situation, the active involvement of the members in actually improving the quality of the service may be lacking, even if they agree to be subject to managerial control.

Quick and accurate feedback is required by the QC members on the ideas they might have come up with for solving certain operational problems. Once the reasons for failure in attaining the marketing objectives have been identified by the QC, the members should then comment on the suggestions in a constructive manner. The effectiveness of QCs can be improved if staff-reward mechanisms are linked to performance.

Reducing dependency on human resources

In most service industries, opportunities exist to replace potentially variable human inputs with relatively predictable machine-based ones. While this may result in a loss of customization to meet the needs of individual customers, the quality of service outcomes and processes can generally be made more predictable. At one extreme, human contact personnel can be dispensed with completely (telephone banking) while in other cases equipment is used to moderate the behaviour of contact personnel (scripted computer-generated messages used by many airline reservation staff).

14.3.2 Monitoring Service Quality

Monitoring service quality based on prior experience of the service provided, assessing how the consumer feels about it, the demand of the consumer, etc. is of great significance in a service organization. A good technical service provided to the consumer is not enough to sustain the customer.

Service Quality Monitoring (SQM) must be attained by the service providers. SQM is nothing but the qualities and abilities that permit tracking customers and his experiences, forecasting the trends, and improving and optimizing the products in advance to increase the level of customer satisfaction.

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Research based on industry reveals that customers experience brand loyalty over a period of time as a result of overall expectations which has gained experience and understanding of various characteristics of the service offering, from its activation and delivery to the billing agreements.

The SQM framework which has to be followed in order to deliver an effective service by the service provider to the customer can be explained as follows:

- Identifying the key quality of the service
- Quantifying service quality through usage of information such as billing, effectiveness of the customer support team, etc.
- Assuring service to the customer
- Defining judicious service levels so that customers can realize the real time complexity faced by the company.

14.4 COMPONENTS OF SERVICE QUALITY

The various components of service quality are discussed below:

- **Employees:** Companies should plan in advance to hire people who are friendly, helpful, caring and responsible. At least some service representatives should have prior experience dealing directly with customers either by phone or written communications. The people who are new to the industry but have desirable personality traits should be trained by those with more experience.
- **Training**: All new employees should be trained to familiarize them with the company's principles for dealing with customers. They should be taught the communication methods they are expected to use, such as phone call scripts or written protocols for different levels of customer concerns. For example, if a customer complaining about a delay in the delivery of services calls,, the employee should know the exact chain of command and the responsible department so he can either contact supervisors on behalf of the customer or give that contact information directly to the customer.
- **Practices**: A company should make it a daily priority to ensure good quality customer service. Each department should take care of this for better management and constant customer satisfaction. That means hiring experienced and professional personnel, having product or service quality assurance, and emphasizing it in all marketing and advertising campaigns. Customers must be made aware of benefits or distinguishing characteristics of the company and its products and services. These daily practices help maintain a better relationship with the customers.

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- **Considerations**: Every company should know what it wants its customers to experience, and ensure that responsible and well-trained employees deliver it. The goal of every customer interaction should be to provide value with the price and quality of the products and a positive overall company experience.

14.5 FACTORS INFLUENCING SERVICE QUALITY

The various factors that influence service quality are discussed below:

- **Attitude:** Attitude is a very vital factor that reflects the thoughts and perceptions of people towards something. According to Gibson's definition of attitude – an attitude is 'a positive or negative feeling or mental state of readiness, learned and organized through experience, that exerts specific influence on a person's response to people, objects and situations'. Attitude of the customer, manufacturer as well as the customer service agent is integral to services marketing.
- **Health:** There are many important jobs that require good skills and significant amount of strength to be able to perform at the high level and long hour work. Physical health is very critical in today's work place. In today's high-end technology world it is necessary to work smart and possess great skills. Your performance depends on your physical health. It helps to improve the efficiency of the employee to deliver service quality, leading to greater performance.
- **Language Proficiency:** A non-native English speaker will tend to take more time in completing the task that a native English speaker. If most of the work language is English, choosing the right person should be a top priority. One of the early studies of English used as the lingua franca, Hildebrandt (1973) found that non-native speakers feverously rehearsed their oral presentations in English before public presenting and needed more time to prepare written materials, thus investing more time in communication preparation than native English speaker.
- **Workload**: Long-term heavy workload can affect an employee's physical or mental health, performance, or productivity including service quality. Consequently, heavy workloads have been shown to have a negative impact on turnover. High employee turnover carries with it the problems of both, a high labor cost and quality issues that affect the performance and growth of a company.
- **Working Environment:** Several attributes of the work environment influence work effectiveness and organizational performance. Facilities with more effective leadership, communication/coordination, and conflict management are expected to have greater staff collaboration and higher

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perceived work effectiveness. When these factors are fulfilled, there is definitely a better working environment and hence a better service quality.

- **Equipment and Machines:** Successful operations are possible only when proper equipments and machines are available. Man and machines are associations that work together to achieve a goal in many businesses. New technologies are emerging day by day. It is important to update ones database and machinery for proper implementation of service quality.
- **Quality Control:** Quality control is an important tool of service quality. Quality check can be regarding the employees' knowledge, the product, the quality of customer service, etc.

14.6 CAUSES OF SERVICE QUALITY PROBLEMS

Some of the factors responsible for poor service quality are given below:

(a) Inseparability of production and consumption and labour intensity: Unlike the manufacture of goods, services are provided in the presence of the customers. Therefore, certain problems arise which influences the customer's perception about the service quality. At times, the employee exhibits poor presentation skills or conducts himself/herself inappropriately, which leaves an indelible impression on the customers, thereby creating service quality issues.

(b) Inadequate services to intermediate or internal customers: The frontline employee needs proper support from further back in the organization in order to properly execute the services.

(c) Communication gaps: Good communication is the key to the growth of a healthy organization. The failure of communication manifests itself in the following ways

- Failure to deliver promises
- Failure to inform a customer
- Failure to communicate to the customer in a manner that he/she can understand
- Failure to listen

(d) Viewing customers as statistics: Service organization should be sensitive as to how they are treating their customers. They need to discern the needs and requirements of the customers.

(e) Short-run view of the business: Organizations are often guilty of having a short-run view, especially where performance evaluation is concerned. The management has to meet certain targets by the end of the year. In order to achieve those goals, they become more concerned with reducing cost and

increasing productivity. While this is understandable, the move is detrimental to the organization in the long run.

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14.7 PRINCIPLES OF SERVICE QUALITY

The specification of service level serves a valuable function in communicating the standard of quality that consumers can expect to receive. It communicates the standards that are expected from employees. The way an organization promotes itself gives a general impression as to what level of quality it seeks to deliver. But more specific standards can be stated in the following ways:

- An organization can rely on its terms of business as a basis for determining the level of service to be delivered to customers. They generally act to protect customers against excessively poor service rather than being used to promote high standards of excellence proactively. The booking conditions of tour operators make very few promises about service quality other than offers of compensation if delays exceed a specified level.
- Generally worded customer charters go beyond the minimum levels of business terms by stating the standards of performance that the organization aims to achieve in its dealing with customers. Banks usually publish charters that specify in general terms the manner in which accounts will be conducted and complaints handled.
- Specific guarantees of service performance are offered especially in respect of service outcomes. Parcel delivery companies often guarantee to deliver a parcel within specified time and agree to pay compensation if they fall below this standard. Sometimes guarantees concentrate on the manner in which a service is produced rather than specifically on final outcomes. In this way building societies set standards for the time they will take to give a decision on a mortgage application. While there can be great benefits from publishing specific guaranteed performance standards to customers, failure to perform results in heavy compensation claims or claims for misleading advertising. Many highly specific targets are therefore restricted to internal use where their function is to motivate and control staff rather than to provide guarantees to potential customers. While banks give their branch managers targets for such quality standards as customer queuing time and availability of working ATM machines, it does not guarantee a specified level of service to customers.
- Many service companies belong to trade or professional associations and incorporate the association's code of conduct into their own offering (doctors, solicitors). They specify minimum standards below which service provision should not fall. The code of conduct provides both a reassurance to potential customers and a statement to employees about minimum standards that are expected of them.

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- Of more general applicability is the adoption of Indian standard (ISI) or ISO. Most of these standards do not guarantee a high level of quality for its services. This is granted to organizations that have in place management systems for ensuring a consistent standard of quality; whether this itself is high or low is a subjective judgement.
- In case of some public sectors service which operate in a monopolistic environment, quality standards may be imposed from outside. There may be a regulating authority which has the power to set specific service targets. (Telephone or electricity regulatory body).

Check Your Progress

1. What are the three elements of service quality?
2. What are the reasons for poor performance of service firms?
3. List the gaps that occur during service processing within an organization.
4. What is service gap?
5. What is service quality monitoring?
6. What are the benefits of using SQM framework?

14.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Research, analysis and quality standards are some of the important elements of service quality.
2. An important factor resulting in the poor performance of service firms is lack of knowledge of the expectations of the customer. Although a number of firms are eager to provide service quality, they fall short because they do not accurately understand the customer requirements. This understanding is complicated still further by the lack of well-defined cues, unlike in the case of goods.
3. The gaps are knowledge gaps, standard gaps, delivery gaps, internal communications gap, perceptions gap, interpretation gaps and service gaps.
4. Service gaps occur when there is a disparity between what the customer expected from the service and how he or she perceived the eventual service delivery.
5. Service quality monitoring refers to the qualities and abilities that permit tracking customers and his experiences, forecasting the trends, and improving and optimizing the products in advance to increase the level of customer satisfaction.

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6. The SQM framework helps in:
   - Identifying the key quality of the service
   - Quantifying service quality through usage of information such as billing, effectiveness of the customer support team, etc.
   - Assuring service to the customer
   - Defining judicious service levels so that customers can realize the real time complexity faced by the company.

14.9 SUMMARY

- Quality refers to conforming to the requirements. Therefore, the first task of a service firm must be the establishment of specifications and requirements, following which, the goal set by the various functions of the organization in terms of quality must be strict compliance to these specifications.
- The customers' perception of service quality is affected by the corporate image of the services, which has its basis in both functional and technical quality
- Research, analysis and quality standards are some of the important elements of service quality.
- An important factor resulting in the poor performance of service firms is lack of knowledge of the expectations of the customer. Although a number of firms are eager to provide service quality, they fall short because they do not accurately understand the customer requirements. This understanding is complicated still further by the lack of well-defined cues, unlike in the case of goods.
- Surveys measure the level of satisfaction that customers experience from service providers. The recipients of such surveys are usually asked to set down the complaints they might have regarding the service offered and suggest ways for improvement. The people assume that the service provider will use this data for taking remedial action in case of expectations not being met.
- Customers usually voice their dissatisfaction by complaining about the service provided. Customers can make complaints directly to the provider or indirectly through intermediaries or watchdog bodies.
- Undertaking research amongst employees gives them an opportunity to air their views regarding the provision of services and their perception of how they are received by the customers. Formal feedback can be obtained from the staff through staff suggestion schemes.
- Service quality management ensures that the gap between consumer expectations and the perceived services delivery is as small as possible.

Every aspect of the marketing mix is affected by quality. Before formulating any marketing strategy, a firm must clearly define what quality means for it.

- It is difficult to measure the quality of services as they are not tangible and are based on individual experiences.
- Zeithaml, Berry and Parasuraman came up with four gaps that occur during service processing within the organization. They are Knowledge gaps, standard gaps, delivery gaps, internal communications gap, Perceptions gap, interpretation gaps and service gaps.
- The key to maximizing customers' satisfaction and their perception of quality in relation to the delivered service is to identify these gaps at appropriate stages and implement measures to close them as much as possible.
- Total quality management is an approach to improve the effectiveness and flexibility of an organization as a whole. It is a multi-disciplinary approach. TQM organizes and involves all employees in all activities, and all functions and at all levels.
- Quality circles often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery. In case QCs are used in the delivery of services, the marketing aims of the service organization must be incorporated into the TQM package and QC agenda.
- Service quality monitoring refers to the qualities and abilities that permit tracking customers and his experiences, forecasting the trends, and improving and optimizing the products in advance to increase the level of customer satisfaction.

14.10 KEY WORDS

- **Knowledge gap:** This gap may occur at the beginning of the service process, when marketers assess what the customers' needs and expectations are from a particular service. The gap happens when there is disparity between the customers' needs/expectations and what the marketers believe them to be.
- **Total quality management:** It is an approach to improve the effectiveness and flexibility of an organization as a whole. It is a multi-disciplinary approach. TQM organizes and involves all employees in all activities, and all functions and at all levels.
- **Quality circles:** Quality circles often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery.

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- **Service quality monitoring:** It refers to the qualities and abilities that permit tracking customers and his experiences, forecasting the trends, and improving and optimizing the products in advance to increase the level of customer satisfaction.

14.11 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the guidelines for setting of quality standards?
2. What are the guidelines for identifying gaps that occur during service processing within an organization?
3. What are the strategies for improving service quality?
4. Write a short note on total quality management approach.

Long-Answer Questions

1. Discuss the tools used for measuring service quality.
2. Describe the various components of service quality.
3. Explain the factors affecting service quality.

14.12 FURTHER READINGS

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